

Blue Owl Capital, Inc. (OWL)

3Q 2024 EARNINGS

October 31, 2024

Operator

Good morning, and welcome to Blue Owl Capital's Third Quarter 2024 Earnings Call. [Operator Instructions] I'd like to advise all parties that this conference call is being recorded.

I will now turn the call over to Ann Dai, Head of Investor Relations for Blue Owl.

Ann Dai

Head of Investor Relations

Thanks, operator, and good morning to everyone. Joining me today are Marc Lipschultz, our Co-Chief Executive Officer, and Alan Kirshenbaum, our Chief Financial Officer.

I'd like to remind our listeners that remarks made during the call may contain forward-looking statements, which are not a guarantee of future performance or results and involve a number of risks and uncertainties that are outside the company's control.

Actual results may differ materially from those in forward-looking statements as a result of a number of factors, including those described from time to time in Blue Owl Capital's filings with the Securities and Exchange Commission. The company assumes no obligation to update any forward-looking statements.

We'd also like to remind everyone that we'll refer to non-GAAP measures on the call, which are reconciled to GAAP figures in our earnings presentation available on the Shareholders section of our website at blueowl.com. Please note that nothing on this call constitutes an offer to sell or a solicitation of an offer to purchase an interest in any Blue Owl fund.

This morning, we issued our financial results for the third quarter of 2024, reporting fee-related earnings, or FRE, of \$0.22 per share, and distributable earnings, or DE, of \$0.20 per share. We also declared a dividend of \$0.18 per share for the third quarter, payable on November 22 to holders of record as of November 11. During the call today, we'll be referring to the earnings presentation, which we posted to our website this morning. So please have that on hand to follow along.

With that, I'd like to turn the call over to Marc.

Marc Lipschultz
Co-Chief Executive Officer

Great. Thank you so much, Ann.

During the third quarter, Blue Owl continued to generate extremely strong growth, while making significant progress on our strategic M&A goals, further diversifying our business and positioning us well to participate in the transformational shifts happening within the financial markets. Over the last 12 months, we have grown management fees by 26%, fee-related earnings by 27% and distributable earnings by 22%, all compared to the prior year period.

Looking back further, we have grown management fees by nearly 200% and FRE by over 150% in just 3.5 years, representing 14 consecutive quarters of growth in these metrics. We've achieved these impressive results through inflationary periods, geopolitical events, rate volatility and a significant slowdown in capital markets, highlighting the stability and strength of our business and the durability of our earnings.

And the vast majority of this growth has been organic, driven by a handful of factors, which we think make Blue Owl's business model very distinct. One, we have extremely high levels of permanent capital, meaning few assets leave the system. For many of our products, there is 0 redemption. So every incremental dollar of assets raised contributes to our earnings layer cake. Two, our earnings are essentially all management fee driven, so we don't experience the same type of volatility or uncertainty that many others see during periods of market transition as we've observed.

Three, our business is geared towards the largest secular trends within the alternative asset market. These include the growth of direct lending, the increasing importance of alternatives in the wealth channel, a growing number of investment-grade companies looking for bespoke capital solutions like net lease, and the rising capital needs of alternative asset managers themselves. And this is intentional positioning. It has been by design that we chose to be in these markets because this is where we saw the greatest divergence in the demand and supply of capital and observed meaningful shifts in how certain markets are financed.

On its own, I believe our organic growth has been quite impressive, particularly given market conditions these past few years. However, as many of you know, strategic M&A has been a key component of our strategy since we started our business. And in the past year, we have made select and modest-sized acquisitions to supplement Blue Owl's core growth. These have been focused on specific areas of the market where we anticipate

meaningful capital needs and strong investor interest. In other words, we are further positioning ourselves to be on the forefront of trends that will define the alternatives industry in the coming decade.

Subsequent to quarter end, we announced an acquisition of IPI's business, reflecting a significant step forward in Blue Owl's presence in the digital infrastructure ecosystem. There is massive demand for data centers and very low vacancy, catalyzed by data storage needs and the proliferation of generative AI tools. IPI is one of the most scaled data center developers, owners and operators in the world, owning roughly 4% of the world's hyperscale capacity.

Their tenants include some of the largest hyperscalers and AI companies globally. We're talking about excellent counterparties, on average rated AA, and the capital investment of these enterprises is expected to measure in the trillions of dollars over the next several years. There is a huge demand-supply imbalance in this market, which relates to both the scaled capital needed to fund the new development as well as the expertise required to successfully source, develop and operate these properties.

Taken together, this dynamic creates a very high barrier to entry and is one of the reasons we are so enthused about this acquisition. There are a lot of companies talking about being in the data center space today, but there are very few that actually have the skill set, proven record and deep relationships to do what IPI does, and that's why they're decidedly a leader in the market.

Within the context of Blue Owl, IPI will be very complementary to what we have in place today. Our current net lease business has a much wider mandate across multiple types of real estate, while IPI is a pure play on digital infrastructure, and one of the few managers out there that offers funds solely focused on data centers.

We anticipate numerous synergies in bringing them on board, considering the firm's strong relationships with the hyperscaler community, modest investor overlap between Blue Owl and IPI and an opportunity to create very interesting and differentiated products for the wealth distributed market, where Blue Owl has built a very strong franchise with CIC, TIC and ORENT.

This acquisition, like others we've announced, was a proprietary discussion centered around the benefits and synergies of joining Blue Owl. We think our M&A strategy is something between buy and build, a hybrid model where we are bringing on teams who excel at what they do and are scaled in their market. In joining Blue Owl, they can access

incremental resources and distribution platforms that supplement and accelerate the strong growth that already exists. Most of the employees on these teams see basically no change in their day-to-day, but at the platform level, the synergies can be very impactful.

There are numerous similarities between IPI and Atalaya, which closed during the third quarter. Atalaya's deep expertise in asset-backed finance, combined with their almost 20-year track record through market cycles, complements Blue Owl's direct lending business nicely, and we're thrilled that they are officially a part of Blue Owl. We see both digital infrastructure and alternative credit as multi-trillion-dollar markets with transformational shifts happening in real time. Through these acquisitions, we have established an expanded foothold in these areas. And similar to Oak Street, we believe we can drive multiplicative growth over time.

Collectively, these new additions have been modest with initial consideration of roughly \$2.5 billion for all the transactions announced in 2024, or less than 10% of our market cap. So in the early days, none of these businesses will be highly impactful to our revenues or earnings on their own because they're just not that big. But over the next 3, 5, 7 years, we look forward to demonstrating and quantifying the significant value creation that we are already seeing in some ways across the platform.

Just to give a couple of early data points around this, our real estate credit team has already identified and created deal flow for the liquid portion of ORENT's portfolio and for our insurance solutions platform, which closed in July. Similarly, Atalaya and our credit teams have been active in sourcing investment-grade flow. And across Blue Owl, we have tripled the pipeline of private alpha and beta plus opportunities for insurance.

Separately, we are hard at work on a commingled real estate credit product that should launch later this year or early next year, and our teams began driving towards this goal prior to Prima's closing. When it comes to integration, we start work streams very early before our deals are even announced. And by closing, these businesses are largely integrated into Blue Owl, as demonstrated by the examples I just highlighted.

Moving on to the quarter. We had our second highest quarter of fundraising with \$7.9 billion of equity capital raised and \$12 billion, including debt. Private wealth fundraising constituted \$4.2 billion, a record quarter for this channel, driven by our perpetually distributed products and fundraise for GP stakes. Gross inflows into our perpetually distributed products were \$2.5 billion in the third quarter and \$9.3 billion over the last 12 months or 67% higher than the prior 12-month period.

We continue to make strong inroads in this vast and growing market for alternatives and wealth, supported by our incumbency and strong relationships in this market. The level of trust that we have built with distributors through our thoughtful partnership and high-touch service continues to bear fruit. And just this quarter, we formally launched The Nest at wealth.blueowl.com to further that engagement. The Nest features educational content, portfolio construction resources and more to guide advisers and their clients in their journey to learn about alternative markets.

We're also having exciting conversations with platforms regarding new product development in areas such as alternative credit and digital infrastructure. Our partners continue to look to Blue Owl for differentiated products with attractive and downside protected income objectives and thought leadership. This is true during strong markets, but particularly true during times of uncertainty.

We raised \$3.6 billion from institutional investors from a number of strategies across the platform, complementing our robust flows in private wealth and reflecting the ongoing diversification of fundraising across our platform.

In total, we have raised over \$38 billion organically across equity and debt over the past 12 months. That's equivalent to approximately 25% of our AUM a year ago that we've raised in 12 months, and that is prior to contributions we anticipate from Atalaya, IPI and new products we plan to have in market in the coming quarters.

Turning to business performance. In credit, we had another robust quarter of deployment with nearly \$11 billion of gross originations and net deployments were roughly 40% of that, resulting in a last 12-month net deployment pace of nearly \$18 billion, up nearly 140% year-over-year, during a period where broadly syndicated markets were very active. Direct lending metrics remained strong. On average, underlying revenue growth and EBITDA growth was high single digits across the portfolio, with no significant step-ups in nonaccruals or amendment requests.

In alternative credit, we have experienced strong demand for the capital solutions we offer and recently announced an agreement for certain Blue Owl, formerly Atalaya funds, to purchase up to \$2 billion of loans from Upstart over the next 18 months. We've always highlighted the advantage of having scale in these markets in which we participate, and this is a great example of how Atalaya's team has brought diverse and long-dated pools of capital together to transact in size in one of their core markets.

In GP Stakes, we continue to position ourselves behind 2 substantial secular trends,

growing allocations to alternatives and GP consolidation. Collectively, our partner managers now manage over \$2.1 trillion, providing us with a comprehensive bird's eye view of the industry. We continue to see the big getting bigger, and we continue to see scaled managers increasingly selected as the partners of choice by allocators.

Since the end of the second quarter, we've also completed 2 strip sales of assets in GP Stakes Fund III, for what is expected to be roughly 15% of the fund's interests, providing liquidity for investors, while bringing in a new set of investors to Blue Owl. We have seen the number of allocators interested in GP Stakes continue to expand and these transactions represent a creative way to offer access to our pool of notable partner managers, while affirming Blue Owl's leading position in the space.

In real estate, we continue to actively deploy capital in net lease at very attractive cap rates behind our 4 major themes: digital infrastructure, onshoring, health care real estate and essential retail. The capital needs in each of these areas remains very significant, and we continue to expect we'll be approximately 60% committed for Fund VI by year-end after just completing fundraising in the first quarter of this year. We are now underway on our new net lease Europe strategy and are on track to be at or above our \$1 billion target by the first quarter of 2025.

To bring it all together, there is clearly a lot more to the Blue Owl story today than there was last year. But the big picture has not changed. We continue to focus on finding areas with significant capital needs like data centers and alternative credit and we are raising large pools of long-dated capital to address those needs. We now have scaled platforms to address the institutional, private wealth and insurance markets, and we continue to add new and differentiated products with the same underlying characteristics of income generation and downside protection.

For our shareholders, the proposition remains simple. Our revenues come from durable permanent capital with best-in-class fee rates and our earnings are made up entirely of fee-related earnings, which are coming from increasingly diversified sources. We think this makes our business quite unique and compelling and well positioned for continued strong and stable growth.

With that, let me turn it to Alan to discuss our financial results.

Alan Kirshenbaum
Chief Financial Officer

Thank you, Marc, and good morning, everyone.

I'm very pleased with the results we reported this quarter, with continued strong trends across key metrics such as revenue and earnings growth, fundraising and deployment. Our 14th consecutive quarter of management fee and FRE growth. Our second strongest fundraising quarter ever, coming from increasingly diverse sources and a record fundraising quarter in private wealth. Those statistics have been driven almost entirely by our organic growth. And as we start to layer in the impact of the new businesses we've brought on, we're very excited about what lies ahead.

Let's go through some of our key highlights on an LTM, year-over-year basis through September 30. Management fees are up 26%, and 91% of these management fees are from permanent capital. FRE is up 27%, and DE is up 22%. As you can see on slide 13, we raised \$7.9 billion of equity in the third quarter and \$24.2 billion for the last twelve months, an increase of 67% from the prior last twelve month period.

I'll break down the third quarter fundraising numbers across our strategies and products. In credit, we raised \$3.1 billion, \$2.4 billion was raised in our direct lending strategies, of which \$1.5 billion came from our nontraded diversified BDC, OCIC, 65% more than what we raised in the third quarter of 2023. Inclusive of the October 1 close, we are nearing \$14 billion raised for OCIC since inception. The remainder was raised primarily through insurance solutions and in strategic equity.

In GP Strategic Capital, we raised \$3.5 billion during the quarter, including \$2.4 billion across our large cap strategy's latest fund and co-invest vehicles, bringing the latest vintage to \$5.3 billion. And we remain confident in our ability to achieve our \$13 billion goal by the end of 2025. We also raised capital in our GP financing strategy and the new vehicle raised in connection with the strip sale that occurred during the third quarter. And in real estate, we raised \$1.3 billion primarily from ORENT, insurance solutions and early capital closed for our European net lease strategy.

We are pleased with the increasing breadth of fundraising across strategies and products. Of the \$7.9 billion of equity raised in the third quarter, over 20% came from strategies, which did not exist or were not part of our platform a year ago, and this will continue to expand with our new business acquisitions and overall organic growth. And remember, we don't look at our fundraising dollar for dollar with others because the dollars we are raising are much more valuable.

Our assets are stickier because we are raising mostly permanent capital. For example, during the quarter, we raised approximately \$3 for every \$1 that went out, and most of that \$1 was distributions from our income products. Our fee rates are also much higher on average, and our margins compare favorably. Taken together, the profitability on each dollar raised is substantially greater. It does not compare.

On the acquisition front, Kuvare Asset Management closed in early July, adding \$21.6 billion to AUM at close and contributing almost \$1 billion of gross inflows during the quarter. And at the end of the third quarter, Atalaya also closed, adding \$10.6 billion to AUM. Pro forma for our acquisition of IPI, our AUM is approximately \$0.25 trillion.

As a reminder, we also have substantial embedded earnings in our business. AUM not yet paying fees, was \$21.7 billion as of the end of the third quarter, corresponding to over \$260 million of incremental annual management fees once deployed. This number has increased from \$12.6 billion this time last year, reflecting incremental assets raised in strategies that earn fees upon deployment as well as some of the new businesses we have brought on.

We also have approximately \$135 million of incremental management fees that will turn on upon the listing of our remaining private technology lending BDCs over time. These 2 items alone would represent an increase in management fees of roughly 20%. These aspects, combined with our business model of being virtually all permanent capital and 100% FRE, just gives us a higher quality of earnings than any of our peers in the industry.

Moving on to our credit platform. We had gross originations of \$10.9 billion for the quarter and net funded deployment of \$4.3 billion. This brings our gross originations for the last 12 months to \$47 billion with nearly \$18 billion of net funded deployment, a record for Blue Owl. Our credit portfolio returned 3.3% in the third quarter and 15.2% over the last 12 months. Weighted average LTVs remained in the high 30s across direct lending and in the low 30s specifically in our software lending portfolio.

For our GP Strategic Capital platform, total invested capital for our fifth GP Stakes fund, including agreements in principle are over \$11.6 billion of capital with line of sight into over \$3 billion of opportunities, which if all are signed, would bring us well through the remaining capital available in Fund V. Performance across these funds remained strong with a net IRR of 23% for Fund III, 39% for Fund IV and 15% for Fund V.

And in real estate, our net lease pipeline continues to grow with over \$22 billion of

transaction volume under letter of intent or contract to close. As Marc mentioned earlier, we think we could be roughly 60% committed for Fund VI by year-end, reflecting the strong demand we're seeing for our net lease solutions. Many of these opportunities are build-to-suit arrangements, which are very capital efficient for the tenant and where we get a premium cap rate for providing a flexible balance sheet friendly solution to our partners.

These can take between 18 and 24 months to fully deploy the capital we've committed. And as a reminder, we charge management fees mostly on invested capital, so we will earn incremental management fees as this capital is deployed. With seeing such strong deployment opportunities, this could position us well to be out in the market with the next vintage of this strategy before the end of next year.

With regards to performance, gross returns across our real estate portfolio were 3.8% for the last 12 months, comparing favorably to the broader real estate market over this time period. The net IRR across our fully realized funds has been 24% for investment-grade and credit-worthy tenant risk, reflecting the favorable value creation driven by our scale and solutions-based partnerships.

Finally, our real estate credit team drove approximately \$1 billion of gross deployment across SMAs, insurance solutions and ORENT in their first full quarter on the Blue Owl platform, highlighting the benefits of combining their experience and investment expertise with a broader pool of capital with more diverse objectives. The team has been able to capitalize on deal flow they already see, which did not have a natural home previously.

Okay. Let's wrap up with a few closing thoughts. We are extremely proud of our record of creating value for shareholders. Since our listing, we have delivered greater than 30% annual growth rates for management fees, FRE revenue and FRE, and we have and will continue to focus on delivering the bulk of our earnings to shareholders as dividends.

To that end, I wanted to spend a moment on our 2025 dividend. We want to provide one further update as we head into the end of this enormously successful chapter and turn our attention to our next exciting chapter, which we will be discussing in detail at our Investor Day on February 7.

As we think about the dividend, we are incorporating a variety of factors, but there are 2 specific ones we want to call out. First, we will factor in the very volatile interest rate environment we are in. And second, we will consider the tremendous growth potential in

our existing and newly acquired businesses. As it relates to interest rates, we note the wide range of outcomes that could play out in 2025 as reflected in the rather dramatic movements in SOFR forward curves recently.

By way of example, over the last number of months from peak to trough, the forward SOFR curve average for 2025 declined over 130 basis points and since that time, has moved back up materially. We will want to incorporate the potential for another meaningful decline in SOFR curves and its potential impact on Part I fees into our thinking around setting a dividend.

As for future growth, we want to retain some additional capital flexibility to invest behind our new strategic additions like data centers, asset-backed credit and insurance solutions, where the reception has been extremely strong. We aspire to do in these markets, what we have done over the past almost 10 years in our current markets. The addressable markets are large enough and early enough to make this an ambitious but a very real possibility.

Altogether, while we guided toward a likely dividend in the mid-\$0.90 on our last call, we currently expect a dividend closer to \$0.90 in order to reflect a wide range of outcomes in SOFR. This means our payout ratio will flex a little with the ultimate level of SOFR in 2025, since we are taking a more conservative approach to where we're setting our dividend.

To the extent the curve doesn't play out this way, to the extent the curve is higher in 2025, this approach allows us additional capital flexibility around strategic growth plans. A dividend around \$0.90 would reflect a near 30% annual dividend growth rate since we went public and around 25% dividend growth year-over-year. We will finalize our thinking around this and announce the full year dividend for 2025 during next quarter's earnings call.

Overall, we continue to put up very strong growth across every key aspect of our business. We are raising capital in more funds from a broader set of investors across more asset classes than we ever have, and that will continue to expand with the new businesses that are just joining the platform, which are already well integrated and where we are collaborating on deal flow and moving forward with new product development.

As we spoke about last quarter, we think our acquisition of Oak Street is the right blueprint for how to think about the value creation possible when these platforms join Blue Owl, roughly tripling AUM and revenues in under 3 years through one of the

toughest periods for real estate as an asset class. It's testament to; one, the quality of the real estate team; two, the preparation and thought that goes into our M&A execution playbook; three, the integration plan we put in place for these acquisitions; and four, overall fundraising capabilities across Blue Owl.

We are bringing on businesses that have achieved great success on their own and have very strong expertise in their respective fields, and we are providing the resources and platform scale that will help them reach the next level. All of this put together, we believe we can continue to lead the alternative asset management industry in all of the key growth metrics that we've continued to talk about management fees, FRE revenues and FRE.

With that, I'd like to thank everyone who has joined us on the call today. Operator, can we please open the line for questions?

Operator

[Operator Instructions]

Your first question comes from the line of Alex Blostein with Goldman Sachs.

Alex Blostein

Goldman Sachs

So maybe just starting with the dividend in your last point there. I appreciate you guys obviously won't give us a whole lot of color probably beyond 2025 for now. But just philosophically, knowing where you guys have come from, where you set the dividend originally, what payout you said originally, how are you thinking about the payout in the dividend structure over time? Is that still fair to assume that dividend will grow in line with FRE, in line with total earnings, in line with total earnings per share? Kind of how do you think about it off of this \$0.90 point?

Alan Kirshenbaum

Chief Financial Officer

Yes, Alex, thanks for the question. And you're right, this is a dividend question. It's not necessarily an earnings question with my last comments.

So we obviously outlined in our prepared remarks that over the last number of months, the SOFR curve average for '25 dropped by -- it dropped by a lot, 130, 140 basis points. That could be up to a \$0.05 impact on a per share basis. The SOFR curve since then has obviously come back a bit, but we have to take a conservative approach to how we set

our dividend because we're setting it a full year in advance.

So on previous calls, we've talked a bit about the impact of rates on our Part I fees that we have a business that is, to some degree, sensitive to SOFR levels. And we mentioned that if rates end up higher, then we have more capital that we can allocate to strategic initiatives, we have a lower payout ratio. So that payout ratio will continue to flex. And I guess, to some extent, for a minute, let's pull the lens back, just to put this all in perspective.

As a reminder, when we had our Investor Day back in May of 2022, we called for a 35% annualized revenue growth through the end of 2025. We'll end up posting, let's say, low 30s percent growth for that timeframe. So we're about 10% off and the dividend is about 10% off. When you look at our low 30s percent annual growth, compared to our peers' growth over the same time period, we're about 2 to 2.5x the average of our peers. And so the focus on the dividend certainly, we think, has overshadowed to some extent, an extraordinary growth story here that will continue now to your point, into 2025 and frankly, well beyond based on the recent acquisitions we've done. So we certainly think it's working.

We'll have our Investor Day on February 7. We're super excited to come out and talk about what we think we can do well beyond 2025. But if you just focus on 2025 for a minute, we think we'll continue to put up, when you think about management fees, FRE revenue, FRE, similar growth rates in '25 is what we think we're going to post in 2024. So on an LTM basis, we're about 30% revenue growth right now. We are mid 20s or so, a little over that in FRE. We think we can produce similar results, let's say, upper 20s or more percent growth for revenues in next year and FRE mid- to upper 20s percent growth.

Operator

Your next question comes from the line of Craig Siegenthaler with Bank of America.

Craig Siegenthaler
Bank of America

Our question is on product innovation. So you guys have been very active on the M&A front. You have access to new capabilities and verticals where client demand trends and also performance are both strong. Can you talk about your ability to launch new products, given these new capabilities, in the private wealth vertical? And we're hoping to see some new products in the semi-liquid wrapper over the near term.

Marc Lipschultz
Co-Chief Executive Officer

Yes. Thank you very much. And really a critical question on a critical topic. When we take a look at over the last year and, frankly, the last several years, as we've been very intentional about filling in product opportunities with 2 attributes. One, most importantly, where we can deliver an exceptional risk-adjusted return for the investors because of the mismatch of supply and demand of capital. And importantly, where we can then also innovate product and product structure, so that as Blue Owl, we can continue our extremely strong growth rates.

And so you're absolutely correct in putting your finger on what we can now do with things like alternative credit and with hyperscale data centers.

So let me tease that out a little more. In both instances and frankly, in all instances, where we've acquired businesses. If you sort of think about this world of organic or inorganic growth, buy or build, what we've really landed on very intentionally is a hybrid strategy, maybe in the 3 bears, it's the just right strategy. And it's about how to take an absolute best-of-breed capability, team, and marry that together with the Blue Owl platform and be able to infuse superior or enhanced origination capabilities, enhanced operational support and very importantly, to your point, product innovation.

So lots of people are going to use the words alternative credit on their calls and in their meetings and lots of people are going to use the word data centers on their calls and in their meetings. But like what does it take to really thrive in the business. What it takes is again, outstanding skills married with the right kind of innovation and platform. And I think that's exactly what we're offering. And that's why Atalaya chose to come to us and say, "Hey, we want to be a part of Blue Owl." That's why ICONIQ and Iron Point said we want to join with the Blue Owl platform in order to be able to build our business further.

These are proprietary deals done on an incredibly attractive basis, consider that at IPI, we're buying it at 13x. I mean these are businesses that others are buying for twice that level. And the problem with the opportunity that presents for us is to now take what is a \$10 billion AUM business and to grow it at a really high rate like we did with Oak Street. So consider Oak Street, we had \$10 billion of assets, we've now tripled the assets and tripled the revenues in that business. We see very similar opportunity sets in those 2 businesses.

And you mentioned product innovation. With regard to product innovation, the wealth channel where we have developed such a strong set of partnerships and where we are

the #1 gross and net originator of wealth product, depending on how you measure, 1 or 2. We've really built a partnership with trust by bringing the right products in the right way to the wealth channel.

And this is a really important point I'd emphasize. Not every product belongs in a continuously offered product form. Not everybody will successfully support products in the wealth channel. The attributes that count are durability. You want a strong income component. So if you think about alternative credit and you think about hyperscale data centers, our specialty with IPI, they are perfect matches for the wealth channel.

So we see very, very significant growth ahead in those businesses. It's why Ivan and his team wanted to join us on alt credit. It's why Matt and his team wanted to join us in hyperscale data centers because these people are the best in the business, and now we will bring them to new investor sets and expand the funnel of originations for them.

Operator

Your next question comes from the line of Glenn Schorr with Evercore ISI.

Glenn Schorr Evercore ISI

Maybe we could pick up where we just left off. So I definitely get, and I saw the progress you made with Oak Street on bringing wealth -- bringing the new strategy to the wealth platform in a permanent capital vehicle. So you don't need to repeat what you just said there. But these businesses they have institutional businesses of their own. So I see the extension into the wealth platform and the synergies.

Maybe we could talk about how they may or may not work together. In other words, one of the things we think about as a fully integrated platform is being able to deliver like a full solution to certain LPs as they consolidate GPs, is that a plan? Is that like 5 years down the road? Is that something that's required? Is that something that you can do? And have you cross-sold to LPs of your original 3 franchises?

Marc Lipschultz Co-Chief Executive Officer

Yes. And collectively, and ourselves included, put -- I don't want to say excess emphasis on wealth because it's a monumentally important and distinctive capability we have. But institutional growth has been incredibly important and absolutely to be clear, cross-selling has become very much a part of our business. And actually one of -- again, the opportunities, you look at the overlap between our LP base, for example, and IPI's LP

base, very limited. In fact, they bring some incredible, very large pools of capital that we've not historically done business with. And so I think cross-selling is very much a part of that synergy that we all talk about.

Again, what we don't want to do ever is disrupt the world-class investment capabilities and processes these firms already have. And that's part of, again, the sort of buy build model. What we do want to do is enhance origination and enhance distribution and you're absolutely correct. The institutional cross-sell is just as important. Doug Ostrover has been circling the globe talking to institutions and the interest in these products when married to Blue Owl is a big part of the upside story. Remember, take a firm like Atalaya, which has been doing alternative credit for 20 years.

Let me repeat that. 20 years. Everybody is going to talk about, hey, I'm going to get into alternative credit, partly because motivated by, hey, I want to have all solutions for all people. We don't want to have all solutions for all people. We want to have outstanding solutions in every area we participate in and particularly in a series of products that are about downside protection, capital preservation, durability, often with an income component.

We know who we are and what we're going to do is not have every product, but we are going to have the best products. And Atalaya is the best in the business at alternative credit. And why would someone want to start and invest in someone's organic undertaking in a business when you have some with 20 years of experience. They have data on 100 million different consumers. You need that data if you're going to do alternative credit successful. You need the data analytics that come with decades of work.

IPI. Lots of people would love to build a data center for one of the hyperscalers. But hyperscalers aren't going to build it with most people. They're going to build it with the people they know and trust. And the people that have, in the case of IPI, we have STACK, our captive operational team. That's 800 people that are experts in power management and conditioning, cooling, redundancy systems, siting, development -- all of which are the skills that the Microsoft's of the world and their peers need and count on. That's what they're paying for. They're not interested in someone saying, "Oh, I can do it for you, too."

So I think we've got to get down to bringing not every product, that's a different strategy. There are many firms that are going all things to all people. What I think we can tell you is when we bring a strategy forward, it's going to be addressing a distinctive mismatch in capital and we are going to be built to deliver best-of-breed results for our

investors and that will lead to best-of-breed growth for Blue Owl. Institutional and wealth alike.

Operator

Your next question comes from the line of Brian McKenna with Citizens JMP.

Brian McKenna JMP Securities

So I had a question on your core direct lending business. You've raised the majority of AUM today through your private BDCs. And obviously, you're raising through the wealth channel as well. So moving forward, you'll continue to raise AUM through your nontraded products. But what's the outlook for fundraising on the institutional side? Will you look to add some additional private BDCs? Or is there an opportunity for some GP/LP funds? I'm just trying to get a sense of the trajectory of direct lending fundraising from here.

Marc Lipschultz Co-Chief Executive Officer

Yes. Look, it obviously remains a central theme, of course, for us and for our investors. Institutional and wealth alike. Again, we'll, as you correctly just commented on wealth, it continues to be an incredible engine. We've continued to -- in fact, we've had a record quarter in wealth in aggregate across all our products. We continue to develop very strong interest across platforms and within platforms for our direct lending product and very low redemptions. So that's in a really, really healthy place.

With regard to the sort of a prospect for growth in total? Look, private BDCs are absolutely a continued option depending on the exact strategy and how we want to build it, as are GP LP funds, to your good point. Look, we've never wanted the structure to be either the impediment or the definition of what we do -- what we want to do, and have done, is deliver the best results in credit. Remember, we've done a \$100 billion of loan originations and had a 7 basis point running loss rate and delivered spectacular yields for our investors.

What we want to make sure is that any investor that wants to participate in that has the on-ramp to do so and the on-ramp doesn't define their result. Remember, we share every loan we have between any one of the relevant vehicles we develop, and we have far fewer vehicles. So an investor in our program, in any on-ramp, is going to experience our best-of-breed results. And that's really important to us and should be really important to the investors, individuals and institutions alike. So if people want to come to

us through a GP/LP structure, we're very happy to do that. We do it with SMAs for some bespoke cases. We've clearly done it, as you said, with private BDCs that can then either be private or can become public BDCs.

So we'll continue to develop, innovate on ramps to build access in the way that is best suited to the investor. So I think you can expect us to continue to look at all those options depending on the product. In some areas like direct lending, I think we've seen, just given where the market has evolved that people are putting more capital now into either continuously offered products or into GP/LP funds. That's great. We're happy with any of those choices. But if you think about new things like alternative credit or hyperscale data centers, there's probably some pretty innovative structures that we can, again, add to the mix on top of the traditional fund structures.

So we'll continue to develop them all, access them all and again, provide them all because we're trying to meet our investors where they are not try to drive them into the structure we prefer.

Alan Kirshenbaum
Chief Financial Officer

And we also have, Brian, some evergreen structures on the institutional side that will continuously take in fundraising dollars every quarter.

Operator

Your next question comes from the line of Brennan Hawken with UBS.

Brennan Hawken
UBS

I was hoping to follow-up on the dividend discussion. So can you remind us, number one, like I have from my notes, 100 basis points translate to about \$40 million to \$50 million of annual Part I fees. Is that still the right way to think about it?

And when we're thinking about the \$0.90, are you still -- you made a couple of references to payout ratio, but it wasn't crystal clear to me whether or not that's changing versus what you guys updated last quarter to have the payout ratio approach and be up to 100%. So is there any shift in either of those?

Alan Kirshenbaum
Chief Financial Officer

Sure. Thanks, Brennan. The former part is going to depend on where the SOFR curve ultimately ends up for 2025. I think the way to think about the 100 basis points move is we have a growing business in the BDC platform, right? So in 2024, we were using 100 basis points was about \$40-plus million. For 2025, you should look at that as \$50-plus million because we -- again, we continue to grow that platform.

So depending on where the SOFR curve ultimately ends up, that will flex our payout ratio. So this may, again, just be a dividend question, not necessarily an earnings question. If rates come in higher, then we'll have more capital to deploy in strategic initiatives. We'll have a lower payout ratio. If rates come in lower, where the curve is currently sitting, then the payout ratio will be higher.

Brennan Hawken
UBS

Okay. And may I -- how about that game last night?

Marc Lipschultz
Co-Chief Executive Officer

Yes, that was -- for -- if you're a New Yorker, a bit of a heart breaker.

Brennan Hawken
UBS

They lost; the Dodgers didn't win.

Alan Kirshenbaum
Chief Financial Officer

Yes, unfortunately, that's exactly right.

And look -- nothing has changed by way of how we focus on. And again, we own, the management team owns 25% of the outstanding shares. So we are very focused on, as I may have said in the prepared remarks, paying out the bulk of our earnings in dividends. That has not changed at all.

Operator

Your next question comes from the line of Steven Chubak with Wolfe Research.

Steven Chubak
Wolfe Research

So wanted to start off with just a question on the FRE growth algorithm. Taking a step back, reflecting on the firm's journey over the past few years, at the '22 Investor Day you laid out various targets with the exception of the dividend target, you're on track to meet or exceed many of these goals. Fast forward to today and what we've been hearing on the call, a lot of focus on the increased scale of the platform, more industry verticals, greater channel breadth.

I wanted to get a sense as to how you're thinking about the FRE growth algorithm over the next several years, whether there's any sneak peek or breadcrumbs you can offer as you're thinking through that growth road map ahead of the February 7 Investor Day?

Marc Lipschultz
Co-Chief Executive Officer

Let me talk about the positioning for that. And then I think Alan can fill in a bit. Look, obviously, we'll get into a lot of details come February 7, and we look forward to that. I think what we're trying to make sure we convey in a very transparent fashion is, look, this has been a monumentally successful chapter. And we also have a lot of conviction, we have now set the stage the table for the next chapter to be monumentally successful.

We will continue to outperform, in our view, the industry because we're positioned in the highest growth areas with a superior business model. Remember, today, still, 91% of our revenues come from permanent capital and all of our revenues, our fees. Just pause and think about the durability and predictability of that model. And that has led to, I would say, and I'm not -- we're looking back multiple years now, as you said, to our last -- coming up on 3 years. And here we are on or ahead of nearly every measure through the turbulence in the last few years, I mean, how many revisions have there been in other people's numbers with carry and the like. And here we are just marching on 14th consecutive quarter. We intend to continue that journey.

Now we'll get into the exact numbers going forward. But with our existing products that continue to have great organic opportunities. Real estate, we're already 60% deployed, as you just heard, or committed I should say, in our most recent real estate fund, that's only a year old. And mind you, it's being done at spectacular terms.

This last quarter in real estate, just to give you a flavor, not to digress farther. In real estate, we acquired \$800 million of assets, with actually another \$650 million of commitments to go with it, at over a 9% cap rate. Over a 9% cap rate with really strong

counterparties. And simultaneously, we sold over \$300 million in net lease properties at a 5.8% cap rate.

I mean so the engine that we're creating for our investors and it's unique, distinct and triple net lease, has enormous organic growth. But then when we add to it, we add something like an IPI. And again, I don't want to do the -- repeat the word data centers over and over, like what will happen ad nauseam across all earnings calls in all industries, but rather it's the exact synergistic extension of our triple net lease business, right?

We already are the partner of choice for corporate -- investment-grade corporate users who say, how do I manage my real estate and how do I do it with a trusted partner.

And now we have added one of the market leaders and one of the only dedicated funds for hyperscale data centers. And hyperscale data centers, if you look at their current funds, their average credit rating is AA. I mean it's like sovereign-level credits. So I think what we're doing is setting the stage to both continue organically and create these new product streams that will give us what we need to make the future, at least make the past prologue for the future. And we appreciate maybe history doesn't repeat, but it rhymes, and we think the next chapter is going to rhyme pretty well.

Alan Kirshenbaum
Chief Financial Officer

So I'll just add to that, Steven. I'll be more specific with numbers.

Look, generally speaking, for 2024, you can see LTM, 26% FRE growth. For 2024, I think you should expect mid 20s percent FRE growth. I think for 2025, I mentioned earlier, I think, with the first question, I think you could expect mid-20% FRE growth for 2025. Beyond that, stay tuned, of course. We'll talk a lot more about that, and the next number of years, on February 7. But I will repeat what I've said in the past, we believe we can meet or exceed, we think we can continue to lead the industry in growth.

Steven Chubak
Wolfe Research

Yes, sorry about last night's debacle.

Marc Lipschultz
Co-Chief Executive Officer

To be clear, we're very happy for our LA-based shareholders. We look out for all our stakeholders.

Alan Kirshenbaum
Chief Financial Officer

New York were a little mourning.

Operator

Your next question from the line of Crispin Love with Piper Sandler.

Crispin Love

Piper Sandler

With lower base rates, there is to hit the Part I fees, which you discussed and is well known, we can all do the math there. But can you discuss some of the offsets that could come with lower rates, whether a pick-up in deal activity, PE activity that needs to be financed, fundraising or anything else worth mentioning? And is there any way to just share how you're thinking about net impacts when you take into account all that? And I understand it's a little bit of a crystal ball question here, but just curious on your thoughts broadly.

Marc Lipschultz

Co-Chief Executive Officer

Absolutely. And a couple of observations to set the stage. When we think about the comments we made today on the call, it's not taking particularly a view of net impacts, but rather what could be the adverse impacts given the volatility? Because when we think about setting the dividend, look, we're not going to know the answer to 2025 per se until the end of 2025, we're going to set the dividend in the beginning.

And so we naturally are going to have to or, I guess, we would say, logically, build for the low case whatever the variable might be, so to speak, and I don't mean the most possible cases in every instance, I'm not trying to be silly, but we take like rates the low case. And yes, there are potential offsets, but we're not going to want to factor those in, in terms of setting expectations around our dividend. So there are offsets.

Listen, when rates come down and what we have not factored in here at all, is the -- and I'll call it the inescapable, but unknown timing of a material increase in activity.

Now remember, there's \$2 trillion of private equity capital that's still sitting on the sidelines. And it's going to get invested and how many times -- I know we've heard for quarters, everyone talking about all of the green shoots, the green shoots. You never heard us say it because we didn't see them objectively. I still don't think there's evidence

of a material snapback, but I know there will be a material snapback.

Now there's a lot of reasons to go hypothesize about it likely coming, probably starting in the first quarter, but you can't prove it today and hope is not a strategy. So I think at the end of the day, from our perspective, they are absolutely offsets. A moderating rate environment, or just a stabilizing environment should and eventually will lead to a material pickup in PE activity.

We look forward to that. That drives a lot of activity for us. And remember, there are places where that matters for us. Deploying capital is part of the calculation for us. And obviously, there's the origination fee activity. And there's just the demand and interest in reloading funds when people see there's a lot of attractive investment activity occurring.

So yes, there are decidedly offsets, which I suspect will come into play in a moderated rate environment. But again, logically sitting here today, we're not trying to be so prescriptive about the exact number, but rather, we are trying to make sure we have a comfortable landing spot, assuming more negative relatively speaking cases than positive cases.

Alan Kirshenbaum
Chief Financial Officer

And Crispin, I'll approach that from 2 perspectives, if it's okay. Net impacts across our entire business, I think to some extent, I just talk to that when you think about the numbers I ran through kind of broad strokes. When you narrow that question, net impact to Part I fees, so we have, again, a growing BDC business. So we continuously take in funds. We're running at \$6 billion to \$7 billion a year of equity that we're raising in OCIC and OTIC combined. And so Part I fees will go up because of fundraising and deployment. We're also continuing to deploy our software lending BDC II.

And so they'll go up for that reason. We suspect they'll come down for rates. And so I think you can use 4Q as kind of a diving off platform, as a ballpark run rate number for 2025. As we go through the year, maybe up a little, maybe down a little, but I think that's a good kind of forecast, if you will, to think about where Part I fees can be. And then you add on to that, though, a potential listing of our software lending BDCs, that would create a step-up. But putting that aside, I think you could use that as a base case run rate.

Operator

Your next question comes from the line of Patrick Davitt with Autonomous Research.

Patrick Davitt

Autonomous Research

You closed a lot of acquisitions over the last few months, mentioned Kuvare added \$1 billion of gross flow in 3Q. So could you give us an idea more broadly what the scale of flow from all of the deals was in 3Q? Secondly, is the \$1 billion from Kuvare kind of the right quarterly run rate to be thinking about, and what could the contribution of all 4 deals look like in 4Q with Atalaya layering on as well?

Alan Kirshenbaum

Chief Financial Officer

Sure. Thank you, Patrick. I'll take this. So I may have mentioned in my prepared remarks that we were able to raise, this quarter, over 20% of our fund raise this quarter was from products that were not here a year ago. So that includes insurance solutions. It includes a little bit of alternative credit, a little bit of real estate credit. It includes the GP Stakes III strip sale, some real estate Europe. So we've got a number of products in there.

I think, generally speaking, it's obviously going to depend on rates. But I think the -- approaching \$1 billion or almost \$1 billion is a good benchmark to use on a go-forward basis, again, pending any sharp moves in rates.

Patrick Davitt

Autonomous Research

And is there a sense of like what Atalaya could run at quarterly, now that it's in the mix?

Alan Kirshenbaum

Chief Financial Officer

I think Atalaya, let's see over the next 12 months because we have a couple of things happening there. We have the raise of ASOF IX, which is our flagship product for us. And then we expect to be out in the first part of next year, in the first half of next year, with a wealth-focused product. And that will be a continuously offered product. And so we'll see fundraising start to ramp there and hopefully grow each quarter. And then you have overlaying that, the more episodic flagship raise.

Marc Lipschultz

Co-Chief Executive Officer

Yes. I mean, it's really a great question because what you're getting at is we're adding more layers to our layer cake and more ways to add those layers. And so let's take Atalaya, now Blue Owl, they're on Fund IX in this world of alternative credit. Again, maybe

a new topic for some people. It's not new for them/now us. And this is a great example. There was an earlier question about the cross-sell. We'll come on to the wealth opportunity, which is tremendous. But just the cross-sell of bringing together the existing capabilities of Atalaya with the distribution capabilities of Blue Owl, there are many institutions, obviously, Blue Owl does business with, that Atalaya has not. And that is part of the opportunity in Fund IX, X, XI and as we continue.

So I think you're putting your finger on it. Each one of these adds another slice to this ongoing growth opportunity set for us in assets the way you phrased it, ultimately converted into revenues and FRE where, obviously, our focus is.

Alan Kirshenbaum
Chief Financial Officer

And one thing Marc may have mentioned in our prepared remarks was -- of course, we're focused on short term and the product innovation that we're doing here. These acquisitions are really about 3 years from now, 5 years from now, 7 years from now, where we can really take these businesses. Very similar or akin to what we did with the Oak Street triple net lease business.

Operator

Our next question comes from the line of Bill Katz with TD Cowen.

Bill Katz
TD Cowen

So just coming back to some of the math behind some of this guidance, if you will. Very loose numbers, and I appreciate we still have a quarter to go, and rates can do what they're going to do. I'm penciling out to about a 57% FRE margin inclusive of the impact of NCI. I was wondering if you could just unpack if that's right, just unpack some of the key drivers. I think I appreciate the Part I fees. I'm trying to better understand investment spending versus the pro forma mix of the transactions, if you will, versus just sort of this opportunity to grow across multi-vectored areas. And is the broader takeaway here that you're just more focus on the top line rather than margin and there could be a little bit more top line growth, looking beyond sort of the transition from '25 into '26, at the expense of margins?

Alan Kirshenbaum
Chief Financial Officer

Of course, Bill. Thanks. Look, thanks for the question. So I guess let's start with this year. Margins this year, and I'll focus on margins, similar place for the year as it is for the

current quarter. The guidance we've previously given, will be slightly below 60%, 59% in that ballpark. For 2025, nothing has changed there by way of guidance, in the 57%, 58% ballpark.

Over the longer term, we do see a path to 60%. I want to be clear; we are focused on margins. We are also focused on earnings growth. We're focused on accretive acquisitions. And so if more Atalaya's come along, lower margin accretive deals, we will do them. And so we're very focused on earnings growth overall. And I think that's part of what we've outlined a little bit, I guess, to give a taste of February 7. But we are very focused on overall earnings growth.

Marc Lipschultz
Co-Chief Executive Officer

Sorry, go ahead.

Bill Katz
TD Cowen

I'm sorry to interrupt you. Just to clarify, that 57%, 58%, just want to make sure I'm thinking about apples-to-apples, is that gross of NCI?

Alan Kirshenbaum
Chief Financial Officer

It is gross of NCI. That's right. So this quarter's 59% and change gross of NCI. For the year, we'll roughly be in the same ballpark. And then 57%, 58% gross of NCI for 2025.

Bill Katz
TD Cowen

Super helpful. Sorry to interrupt you, Marc.

Marc Lipschultz
Co-Chief Executive Officer

No. No, I was just going to clarify that, look, our -- we're crystal clear on our job for our shareholders, which is to drive outstanding FRE growth, DE growth and deliver the bulk of that to our shareholders. And the decisions we're making, which, again, if you all have, and we appreciate it, have mapped us since we've been public, we've steadily made those kinds of decisions to make sure that we are setting the stage not for, hey, what's the single best answer for a given quarter, but what is the answer to continue to lead the market.

Take a step back, we have come over the last -- since we went public, our management fees have compounded at 37%. Our FRE revenues at 34% and our FRE at 32% and our dividend is just about 30%.

So I think our job is to make sure we're always -- and this is what you're counting on us to do, making those sort of short-term decisions and trade-offs to develop that sort of exceptional long-term trajectory. And I think we feel really good that we're getting the pieces in place to -- and I don't mean numerically continue, but this trajectory onward. And at moments that, we'll choose to make investments in that, in moments, it will yield kind of excessive results. Our job is to take care of all of that and make sure we continue to be a market leader on all those metrics.

Operator

Your next question comes from the line of Brian Bedell with Deutsche Bank.

Brian Bedell

Deutsche Bank

Most of my questions were asked and answered. Maybe just one more on deployment. Marc, you talked about -- you gave us some good color there on the PE market potentially coming back. Maybe just to think about that \$260 million of fees that would be activated upon deployment. Any sort of view or update, I guess, on what you are viewing as the timing of that and whether that -- it sounds like that might be softer initially here just in the fourth quarter and going into 1Q? Or is that not, correct? Do you think it will strike right back up?

Marc Lipschultz

Co-Chief Executive Officer

Yes, deployment has been really good. I mean, if you take a look at this year, we're tracking at really exceptional levels. We had a record quarter last quarter. This quarter is just about on top of our kind of strongest quarters from 2021. And that is in a very tepid M&A environment or PE M&A environment, and one where the syndicated market is wide open.

So I actually would take the read-through, frankly, from this quarter to be extraordinarily healthy about the state of the private market and the demand for our solutions. Once we get -- and again, it is a when, not an if. Once we get PE activity picking up, and if we have any moderation in the syndicated market, I mean, you're setting -- we're collectively setting the stage or looking at an opportunity set for pretty meaningful upticks.

So looking this year, it's already high, and it's high in what you would probably consider the least favorable environment for volume of deployment. Active syndicated market, relatively inactive PE market. So I wasn't trying to top down the -- by any measure, the offsets that will come, and I wouldn't characterize it as an offset, future growth opportunities.

Again, we're just trying to make sure when we set different targets, we take a sober view or a conservative view. But in terms of the opportunities ahead, I think we're -- to be clear, very bullish about deployment. And I just -- I can't tell you I know what quarter that switches on, right? We've really got to talk to the PE folks about that. But it's going to happen. And the sooner, the more rapidly that goes to work and more rapidly, that converts into fee-paying assets and more rapidly our revenues and earnings grow. And it's math.

Again, we are not in the volatile business. We're not in the carry realization business. We're in the manage-for-fees business and our march will go on. So when the drummer picks up to beat with PE activity, we'll march faster.

Operator

Your next question comes from the line of Alex Blostein with Goldman Sachs.

Alex Blostein
Goldman Sachs

Just to clarify, Alan, just -- we got a couple of questions around. When you talk about a mid-20s FRE kind of guidance target for 2025. That's an all-in FRE dollar number, right? That is not per share, that is not net of NCI, and it's inclusive of the pending deal, like, so IPI is included within that, or no? I just want to clarify.

Alan Kirshenbaum
Chief Financial Officer

It's the first thing you said, that's right. It's a dollar amount.

Alex Blostein
Goldman Sachs

Right. And all-in, including the deal, IPI?

Alan Kirshenbaum
Chief Financial Officer

Yes.

Operator

I will now turn the call back over to Marc Lipschultz for closing remarks.

Marc Lipschultz

Co-Chief Executive Officer

Well, thank you, everybody. Look, we're -- we really appreciate the time and the thoughtful engagement. We're excited to have delivered our 14th consecutive quarter of growth. We are excited to look back over the last few years and deliver the kind of performance we've delivered. We are more excited about looking ahead to the next several years, which we'll all talk about in detail on February 7. But times look good to us. We're excited to be here, and we appreciate your support and Happy Halloween.

Alan Kirshenbaum

Chief Financial Officer

Thank you, everyone.

Operator

Ladies and gentlemen, that concludes today's call. You may now disconnect.