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AMG.N - Q3 2023 Affiliated Managers Group Inc Earnings Call

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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Greetings, and welcome to the AMG Third Quarter 2023 Earnings Call. (Operator Instructions) As a reminder, this conference is being recorded. I would now like to turn the conference over to your host, Patricia Figueroa, Head of Investor Relations for AMG. Thank you. You may begin.

Patricia Figueroa - *Affiliated Managers Group, Inc. - Head of IR*

Good morning. and thank you for joining us today to discuss AMG's results for the third quarter of 2023. Before we begin, I'd like to remind you that during this call, we may make a number of forward-looking statements, which could differ from our actual results materially, and AMG assumes no obligation to update these statements. A replay of today's call will be available on the Investor Relations section of our website, along with a copy of our earnings release and a reconciliation of any non-GAAP financial measures including any earnings guidance announced on this call.

In addition, this morning, we posted an updated investor presentation to our website and encourage investors to consult our site regularly for updated information. With us today to discuss the company's results for the quarter are Jay Horgen, President and Chief Executive Officer; and Tom Wojcik, Chief Financial Officer. With that, I'll turn the call over to Jay.

Jay C. Horgen - *Affiliated Managers Group, Inc. - President and Chief Executive Officer*

Thanks, Patricia, and good morning, everyone. AMG's strong third quarter and year-to-date results reflect the positive impact of our capital allocation strategy across both growth investments and share repurchases. During the quarter, the changing market environment continued to challenge investors as the collective impact of higher rates, persistent inflation, and increasing geopolitical risks pressured clients' ability to achieve their investment objectives.

High-quality, independent managers have distinguished themselves in volatile times, as uncertainty and asset dispersion create opportunities to generate differentiated returns in both liquid and private markets, and we believe this dynamic is playing out again.

Differentiated return streams are critical for clients to achieve their long-term objectives. Independent partner-owned firms have fundamental competitive advantages in generating those differentiated returns especially during periods of heightened uncertainty. With specialized expertise, entrepreneurial cultures and alignment with our clients, our Affiliates are among the highest-quality independent firms globally. And, for our shareholders, AMG offers a unique opportunity to access the long-term growth and profitability of this diverse set of high-quality independent managers through a proven partnership approach.

In 2023, we have continued to add to this diverse set of Affiliates having made two new investments in specialized private markets businesses operating in areas of secular growth. In August, we completed our investment in Forbion, a leading European private markets investor in the fast-growing life sciences sector. And in October, we completed our investment in Ara Partners, a private markets manager specializing in industrial decarbonization. Given the heightened global focus on achieving a lower carbon economy, investor allocations to fund this transition are accelerating and Ara Partners is well-positioned to continue to benefit from these secular tailwinds. As Ara entered the next phase in its evolution, aligning its business with a long-term strategic partner was critical. And the team chose AMG based on our distinctive approach of magnifying firms' long-term success while preserving their independence.

With our investments in Ara partners and Forbion, AMG now has 8 Affiliates managing more than $100 billion in private markets assets across a broad range of specialized strategies, including private equity, private credit, secondaries, real estate, infrastructure, growth equity and venture capital. And given our Affiliates' strong alignment with client demand trends and excellent investment performance, their fundraising momentum has remained strong this year, including approximately $7 billion raised year-to-date and approximately $10 billion pro forma for Forbion and Ara partners. These strong flows in an otherwise challenging fundraising environment highlight the appeal of our Affiliates' specialized strategies.

Stepping back, we have strategically evolved AMG by deliberately investing in high-quality independent managers operating in areas of secular growth. The growth investments we have made over the last few years have played a critical role in reshaping AMG from a business profile largely characterized by traditional long-only exposures to one with a substantial contribution from alternatives.

Today, alternatives account for approximately half of our earnings. And we expect the composition of our earnings to reflect an even greater contribution from both private markets and liquid alternatives in the future, as we continue to execute on our growth strategy, including investments in new and existing Affiliates. Fundamentally, we partner to magnify the advantages of independent firms. And as part of our strategy, we collaborate with existing Affiliates on their growth strategies, investing our capital and resources to develop new strategies and products to meet evolving client needs.

As part of our capital formation capabilities, AMG offers Affiliates a comprehensive, vertically integrated U.S. wealth platform that enables them to access this large and growing market that is difficult--or even impossible--for independent firms to enter on their own. And our U.S. wealth platform is uniquely positioned to enable our Affiliates to participate in the ongoing democratization of alternative strategies, as wealth investors increase their allocations to both private markets and liquid alternatives.

We have been successful in bringing Affiliate strategies to market through this platform, having launched one of the first evergreen funds in the private equity space, the AMG Pantheon Fund. With approximately $2.5 billion in assets under management, the fund has nearly doubled over the past year and is one of the largest and most established private markets products in the U.S. wealth channel. And, we recently filed to register a new fund, the AMG Pantheon Credit Solutions Fund, a private credit secondary strategy that will be the first of its kind in the wealth channel. After a decade of growth in direct lending, the private credit secondaries market is gaining significant momentum as an asset class with growth in both allocations and deployment opportunities.

And having built a leading position in this fast-growing segment, Pantheon is well-positioned to capitalize on the significant market opportunity that's unfolding. In addition, we expect to bring a series of unique and differentiated alternative offerings to the market by combining our multi-decade experience in U.S. Wealth with our Affiliates' investment expertise. For example, we are collaborating with Comvest Partners to bring non-sponsored middle-market direct lending to wealth clients.

AMG's distinctive approach continues to attract outstanding firms seeking a strategic partner that can magnify their long-term success while preserving their independence. Given our broadened partnership solution set, and our successful strategic engagement with Affiliates, prospective Affiliates are increasingly attracted to AMG's model, especially in this evolving landscape.

In addition, by increasing our origination resources and focusing our efforts on secular growth areas, the quality and size of our prospect universe has been enhanced. Our two growth investments in 2023, Forbion and Ara Partners, which both operate in our strategic focus areas are strong evidence of the success of our enhanced new investment approach. Looking ahead, having advanced several attractive new investment opportunities during the quarter, we are well-positioned to increase our new investment activity, further evolving the composition of our business towards in-demand strategies.

Finally, I want to emphasize our continued focus on disciplined capital allocation, particularly during this period of heightened volatility and uncertainty. We will continue to evolve our business through growth investments in new and existing Affiliates given our unmatched 30-year track record of successful partnerships, our new investment prospects and our significant financial flexibility. That said, as we evaluate opportunities to deploy our capital, we will remain disciplined as we make growth investments and continue to return excess capital through repurchases. Our discipline is evidenced by our track record, having invested more than $1.6 billion in growth areas over the past 5 years, while also returning more than $2 billion in excess capital to shareholders over the same period.

Today, as a result of our ongoing evolution, AMG's profile is truly unique--with independent firms operating in private markets, liquid alternatives and differentiated active equities. Our diversified portfolio of high-quality entrepreneurial businesses is a competitive advantage that both enhances our earnings stability and supports our capacity to continue investing in areas of the highest growth and return to benefit our shareholders. Looking ahead, given the combination of our unit competitive advantages, our excellent capital position and our disciplined approach to capital allocation, we are highly confident in our ability to create significant incremental shareholder value going forward. And with that, I'll turn it over to Tom to review the details of the quarter.

Thomas M. Wojcik - *Affiliated Managers Group, Inc. - Chief Financial Officer*

Thank you, Jay, and good morning, everyone. AMG's disciplined approach to capital allocation, along with the growing opportunity we see to deploy our capital has enabled us to both increase our activity level and our impact in 2023. We made two new investments in Affiliates operating in areas of secular growth, and we continue to invest alongside our Affiliates to magnify their competitive advantages. At the same time, we have strengthened our balance sheet through the completion of the sale of our remaining EQT stake as well as the closing of the Veritable transaction, and we have continued to return substantial capital to shareholders through share repurchases. Our actions reflect the increasingly attractive opportunity for AMG, and we remain focused on allocating capital to further evolve our business mix toward areas of secular demand, which we expect will translate into significant long-term earnings per share growth and shareholder returns.

Turning to our third quarter results. Adjusted EBITDA of $208 million included $12 million of net performance fee earnings, $6 million of catch-up fees at one of our private markets Affiliates, and a partial quarter contribution from Veritable. The Veritable transaction was completed in September and AMG received $294 million in gross cash proceeds. For GAAP purposes, we recorded a pretax gain of approximately $133 million, which we have reported as a separate line item on our Income Statement. This gain is excluded from our supplemental financial metrics, consistent with our EBITDA and Economic Net Income definitions.

Economic earnings per share of $4.08 benefited from the impact of share repurchases. Client demand for alternative strategies remained strong, while headwinds in global equities persisted, and net client cash outflows, excluding certain quantitative strategies, were $(7) billion for the [third] (added by company after the call) quarter.

Turning to performance across our business and excluding certain quantitative strategies. In alternatives, we again reported strong results with nearly $3 billion in net inflows in the quarter. These inflows were primarily driven by private markets fundraising at Pantheon, Comvest and EIG, including fundraising at Forbion and Ara Partners prior to our investments this year, our private markets Affiliates have raised nearly $10 billion of new long-duration capital year-to-date.

Our Affiliates continue to generate outstanding investment performance, and their excellent long-term track records across credit, real estate, secondaries and infrastructure are driving fundraising momentum. We also generated positive flows in liquid alternative strategies where clients are benefiting from outstanding investment performance across a wide range of products. In addition, we continue to see pockets of strength in certain quantitative liquid alternative strategies, which delivered modest net inflows in the quarter, building on strong multi-year performance track records. Industry headwinds in equities continued and we saw approximately $(7) billion in net outflows in global strategies as well as $(3) billion in U.S. equities.

And despite near-term performance headwinds in equities, we remain confident that our Affiliates' strong long-term track records across multiple cycles position them to recapture client demand over time. Finally, in multi-asset and fixed income, we had positive flows and continue to see demand for fixed income strategies at GW&K.

Now moving to fourth quarter guidance. We expect fourth quarter Adjusted EBITDA to be between $260 million and $285 million based on current AUM levels, reflecting our market blend, which was down (1)% quarter-to-date as of Friday. This range reflects a partial quarter contribution from Forbion excludes earnings from Veritable, and does not include the impact of our latest new Affiliate investment, Ara Partners, which will be reported on a one-quarter lag and will begin to contribute in the first quarter of 2024. Taken together, we expect Forbion and Ara will add 2% to 3% to economic earnings per share on an annualized basis.

Additionally, this guidance range includes net performance fee earnings of $75 million to $100 million in the fourth quarter, which translates to a full-year range of approximately $130 to $155 million. AMG's performance fee earnings are generated by a well-diversified group of Affiliates and products across absolute return, beta-sensitive and private markets strategies and are paid in cash. Performance fee earnings continued to be a consistent contributor to our earnings, making AMG's overall earnings power stronger and more resilient across market cycles.

We expect a fourth quarter Economic Earnings per share range of $5.43 to $5.96, assuming an adjusted weighted average share count of 35.2 million shares for the quarter. We have posted a guidance reconciliation to the Investor Relations section of our website where you can find all of the detailed modeling items that I have historically discussed on our earnings call, including interest expense, amortization and impairments, income taxes and other economic items.

Finally, turning to the balance sheet and capital allocation. Our balance sheet is in an excellent position and remains a source of strength as we look to generate shareholder value. In the third quarter, we completed the sale of both Veritable and our remaining EQT stake, generating approximately $350 million of pre-tax proceeds. That capital has and will continue to contribute to growth investments, share repurchases and net debt reduction. In the third quarter, we repurchased $172 million of shares bringing our total repurchases this year to $441 million, inclusive of the $225 million ASR completed in the second quarter. Given the combination of our strong liquidity position, recurring cash flows and building business momentum, we now anticipate full year repurchases of at least $550 million, and are on pace to repurchase more than 10% of our shares outstanding this year. As always, these expectations remain subject to market conditions and new investment activity.

As we have discussed previously, we take a disciplined approach to capital allocation, with all of our decision-making running through a common framework--including growth investments and the return of excess capital to shareholders--as well as prudently managing our leverage levels and financial flexibility. Our strong liquidity position has enabled us to fully defease our $400 million February 2024 notes with short-term treasuries, and we expect to fully pay down these bonds in the first quarter. We continue to have significant capacity to both invest for growth and return capital to shareholders, and we head into 2024 with a strong balance sheet and the full capacity of our $1.25 billion undrawn revolver.

Our approach to investing in the growth of our business is intentional--we generate substantial cash flow, and we have a diverse set of growth opportunities to deploy capital available to us--across investments in new Affiliates, innovating alongside our existing Affiliates and launching new products and investing in AMG capabilities.

Looking ahead, given our disciplined capital allocation framework and distinct competitive advantages, we remain well positioned to execute on our growth strategy and generate shareholder value over time. Now we're happy to take your questions.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions) Our first question comes from the line of Dan Fannon with Jefferies.

Daniel Thomas Fannon - *Jefferies LLC, Research Division - Senior Equity Research Analyst*

Thanks, good morning. I guess a couple of clarifications on the new investments in the quarter. The new investments show up as $3 billion in the statements, but I believe you said they've raised close to $3 billion thus far this year. So maybe if you could talk about the fundraising and what the growth rate has looked like for both of those investments? And then I believe you also said 2% to 3% EPS accretive, or added on an annual basis. Just want to make sure accretive to what is that current estimates? Is that based on 3Q run rate? I just want to make sure what it's accretive to.

Jay C. Horgen - *Affiliated Managers Group, Inc. - President and Chief Executive Officer*

Yes. Well, thanks for your question. I'm going to have Tom start to answer those questions. There's a couple of they're all related and maybe we'll just talk about the new investments more broadly after that. Go ahead.

Thomas M. Wojcik - *Affiliated Managers Group, Inc. - Chief Financial Officer*

Yes. Thanks, Dan. So on the first question around AUM, the $3 billion that you're seeing come through is only related to the Forbion transaction, which closed in the quarter. We'll see the AUM impact from Ara Partners on a go-forward basis once we include that, so that's not included there. In terms of fundraising for the two businesses, without getting into specifics on fund by fund, each of them have been really growing quite nicely across their franchises.

If you recall, Forbion had both a venture capital business in the biotech space as well as the growth equity business, and they've been raising larger vehicles in each of those over the course of time, including some very strong fundraising in 2022 and into 2023. And then Ara, on the decarbonization private equity side is in the process of closing on their flagship fundraise and really has had an exceptional 2023 in a fundraising environment that's been incredibly challenging. So really speaking to the quality of what they're doing and the demand that clients have for their offering.

In terms of the accretion number, that's 2% to 3% on EBITDA, net of the impact of, obviously, the cash that we spent there. And look, that cash is obviously earning quite a bit. So I think you can look at both Forbion and Ara not being at all in our 2023 numbers, they'll be in our 2024 numbers and about 2% to 3% accretive to baseline EBITDA in 2024.

Jay C. Horgen - *Affiliated Managers Group, Inc. - President and Chief Executive Officer*

Yes. Dan, let me just follow that with our private markets business overall, I think you heard in my prepared remarks, year-to-date, $7 billion, prior to Forbion and Ara in terms of new fundraisings and $10 billion with the two together. So that kind of gives you sense for how much has been raised by those 2 this year and $10 billion of dry powder just in the last 9 months. And it's an even bigger number if you look at over the last 12 months.

We've had some good fundraising, lots of dry powder going into this environment. Maybe I will end with just taking it back up a level, just to remind everyone that our strategy is really to invest in secular growth. And I'll use Ara here as my example, one of the largest and most sustainable pockets of secular growth really is in the lower carbon economy. And in general, we're looking for large mega-trends, and that might include breakthroughs in health care, energy transition, the need for data. That really describes Ara Partners, Forbion and Peppertree our last 3 investments. And what we think is happening here is capital has and continues to form around these trends because really, they're highly attractive in terms of their return profiles for investors. We want to be part of the increasing allocations from clients to these areas. So we're out looking for those businesses, independent firms that really have advantages because they're aligned with their clients.

And we think that these strategies, these specialized sustainable strategies, have structural tailwinds, and we see significant opportunity for growth. And specifically for Ara partner, the accelerating demand for capital to transition to a lower carbon economy. It's supported by a number of factors, including lower emissions targets, growing customer interest in sustainable products and increased government incentives.

So those are the structural tailwinds that we are trying to get in front of and Ara partners is well positioned in those trends. I think importantly, about Ara partners that I will just mention, one of the things that was important to us is that it sits in a unique place in the industrial value chain. It sort of bridges the gap between new technology development and the ultimate operators of the assets. So once the new technologies have been clearly proven in commercial applications, Ara and their team, they can build, implement and scale these technologies within assets and businesses to the point where they're ready for large industrial buyers to fold them into their own operating environment.

So no real technology risk there, really just trying to capitalize on the move to a lower carbon economy. So we're excited about this partnership in addition to having them transition from an early seed investor, which was where we purchased our interest. We also facilitated Ara Partners' management principles, owning more of the firm, which is a hallmark of our partnership model. So we're very excited about that, and we're very excited about Forbion and we're very excited about Peppertree and a number of our other specialized firms operating in private markets. So thanks for your question.

Operator

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

Alexander Blostein - *Goldman Sachs Group, Inc., Research Division - Lead Capital Markets Analyst*

Hi, good morning. It's great to see continued momentum on the Alts fundraising. And I think, Tom, you mentioned a couple of sources between liquids and illiquids. It sounds like the liquid business had positive flows in the quarter, including some of the quant managers. So I was wondering if you could just kind of take a step back and talk a little bit about what you guys are seeing on the fundraising front for your liquid alts managers, what the pipeline looks like and whether you sort of think we've turned the corner on better flows on the liquids as well.

Jay C. Horgen - *Affiliated Managers Group, Inc. - President and Chief Executive Officer*

Yes. Thanks, Alex, and good morning to you and thanks for noticing. I think the alternatives bucket generally which today, for us, is about $230 billion in assets, about $100 billion in private markets and $130 billion in liquid alternatives, is a growing segment for us. So maybe I'll let Tom give you some of the details.

Thomas M. Wojcik - *Affiliated Managers Group, Inc. - Chief Financial Officer*

Yes. So let me start with an overview and then Jay may come over the top with a little bit more color on some of the liquid alts names. But overall, importantly, our growth strategy continues to drive that evolution of our business toward the area Jay just mentioned, which is alternatives overall, in addition, broadly to overall secular growth areas.

And as we continue to execute against that strategy, we do expect that to enhance both the long-term organic growth of the business as well as the earnings growth of the business over time. When you think about flows at the highest level, obviously, we continue to see this bifurcation between strength and alternatives, both private markets and liquid alternatives as well as challenges on the fundamental equity side. And I think year-to-date, our results really sort of speak to that story.

We're continuing to benefit from both the diversity and the depth of our private markets Affiliates, and we're seeing fundraising across a number of well-positioned strategies: credit, infrastructure, secondaries, energy transition, real estate. And these flows are very valuable to us. They're long term in nature. The fee rates are strong. We have the ability to generate potential carried interest over time. So we're really focused on that area.

And Jay also mentioned that increasingly, we're really focused on businesses that are aligned with these global economic mega-trends where we're going to see long-term client demand. And he spoke to Peppertree with data proliferation and Forbion in biotech and health care, Ara partners in decarbonization. These are decade--quarter-century type trends. And I think we're getting in front of them really early on, and we're going to see strong demand for a long time there. In terms of your specific question around liquid alternatives, most importantly, we're seeing excellent performance really across all time periods over the last several years. And we're having a more active dialogue with clients in terms of portfolio construction, in terms of the value of uncorrelated and diversifying return sources.

And we think all of that positions us well in terms of forward flow opportunities. This quarter, we did see positive flows in liquid alternatives. We also saw modest positive flows in certain liquid alternatives where now you've got 2, 3 years of track record after a tougher time, going back 4 or 5 years ago, and you're starting to see clients return to some of those strategies as they continue to put up very strong numbers and provide the benefits to portfolios that I just mentioned.

So I think, overall, we feel really good about private markets. We feel really good about where we are in liquid alternatives. And each of those offers real differentiation from independent specialized firms where clients are focused on building portfolios that can benefit from these types of exposures.

Jay C. Horgen - *Affiliated Managers Group, Inc. - President and Chief Executive Officer*

Yes. Thanks, Tom. And I'm going to actually just tie this back to kind of the market environment itself. So Tom talked about the mega-trends. Clearly, that's where we're investing our new capital; both in existing and new Affiliates, and you can see that in our new Affiliate transactions. But you can also see it in some of the efforts that we are working with our Affiliates in collaboration, for example, the AMG Pantheon Credit Solutions Fund, which was filed a couple of weeks ago, and that is the first of its kind in the wealth for credit secondaries. So that's going to be something that we're really going to try to get our efforts behind both people, capital and work with Pantheon. That's just an example.

But when you look at the way we're positioned today, which, from an earnings perspective or an EBITDA perspective, roughly 30% is in liquid alternatives, 20% in private markets and the rest being in long-only equities. I think this environment that we're in or we have been in or we're really going to be in for a while, higher rates, macro volatility, return to more fundamental investing, that's generally constructive for us. And so not only, I think, are we leaning into the mega trends, but I also think this environment is going to be very good for AMG, in particular, in liquid alternatives. And so to kind of nail your question down, I think the good news about liquid alternatives is we've got great performance.

As Tom said, after some more difficult years, we've got a lot of business momentum at places like AQR and Systematica--AQR had two good years now. Systematic has been firing on all cylinders for some time. Those are 2 large Affiliates in that space for us. And we think that not only will there be additional client allocations, but the benefit of that market segment is significant performance fees over time, which is a capital generative thing where we can reinvest in our growth strategy, but also return capital to shareholders.

We generated a significant amount of performance fees last year and over the last 5 years, and we see that again this year in the guidance that Tom gave. So the combination of liquid alternatives, the combination of that with private markets, locked up capital, and the combination of that with differentiated active equities just makes us unique in the market. I think we truly are unique, and we're excited about how we're going to see this business perform over the next 5 and 10 years.

Operator

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

Craig William Siegenthaler - *BofA Securities, Research Division - MD & Head of the North American Asset Managers, Brokers & Exchanges Team*

Good morning, Jay, Tom. Hope you're doing well. For our first question, we just want to dive a little deeper into the institutional channel flow dynamics. So first, what do you view as the key drivers in the $3 billion sequential increase in net flows and do you view it as sustainable? And then secondly, historically, the industry has had some redemption challenges in 4Q and December months, partly driven by seasonality and year-end decisions. At this point, are you expecting any onetime outflows in 4Q?

Jay C. Horgen - *Affiliated Managers Group, Inc. - President and Chief Executive Officer*

Hi Craig and good morning, we'll follow the same pattern here. I'm going to let Tom start and then I'll add to it, I think.

Thomas M. Wojcik - *Affiliated Managers Group, Inc. - Chief Financial Officer*

Yes. So Craig, thanks for your question. I think a lot of this probably drives with the answer we gave to the previous question. Our business is changing. And if you look at the makeup of our business today versus where it was 5 or 6 years ago, in some ways, the answer to your question would be quite different. Given the concentration that we have now in private markets and liquid alternatives, I do think a lot of the institutional client dynamics in those areas are quite different from the client dynamics that AMG perhaps dealt with historically around more long-only equity strategies.

So first, in terms of strength in this quarter and where we go from here, I think a lot of the strength we're seeing continues to be in those two areas, liquid alternatives and private markets. When you think about the way that institutional clients are buying in those areas, they're not looking for commoditized product. They're really looking for where managers have a demonstrated ability to add value in a unique and meaningful way. So maybe just to use private markets for a moment. Obviously, the 2023 fundraising environment has been incredibly challenging, very well documented in terms of denominator effect and the like. Many of our Affiliates while still experiencing the difficulty of that environment are really bucking that trend, and it goes to the comments that Jay and I have both made around both mega-trends, but also around what's already in the portfolios of clients.

Many have already put lots of regular way private equity and sort of sponsor back lending into their portfolios over the course of the past 10 years, but perhaps haven't yet filled out their allocation on industrial decarbonization or data and cell towers or other areas of real estate, infrastructure, private credit, nonsponsor-backed direct middle-market lending like we have at Comvest. So there -- as they're continuing to think about the scarce capital that they have to put to work, we really think they're looking to managers like many of our Affiliates who can do something unique and differently. And very similar, and Jay mentioned this in the last answer, on the liquid alternatives side, firms like Garda, Capula, Systematica, AQR, they just do things that are quite different. So I think we're seeing a lot of momentum there.

In terms of our expectations for the fourth quarter, there always is year-end cleanup in housekeeping in terms of the way that institutions want to go into 2024. I think we're still seeing lots of uncertainty in the market, particularly with respect to equities and particularly with respect to global equities, there's a lot going on in the world. And I think it's incredibly challenging for institutions to manage their exposures there. So I don't think we see anything outsized on the institutional side in terms of our expectations other than continued uncertainty and really waiting for the market to develop a bit. We do see some modest seasonality in a couple of our products, but I wouldn't speak to anything outsized in terms of our expectations for the fourth quarter.

Jay C. Horgen - *Affiliated Managers Group, Inc. - President and Chief Executive Officer*

Yes. And that was a really good summary. I don't have a lot to add. I'll just remind everyone that we don't really here think about our flows as a quarter-to-quarter event. Actually, we try to look beyond that by some amount of years. Really what we think net flows for us will really be an output of successfully executing on our strategy as we continue to shape our business towards areas of secular growth.

So it will act different between private markets and liquid alternatives and then obviously differentiated equities. Those will all act differently over time. But as we're moving towards these secular growth trends, we do see long-term improvement in our flows but also really just long-term growth in the business as we pick up on these trends. Thanks for your question, Craig.

Operator

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

Brian Bertram Bedell - *Deutsche Bank AG, Research Division - Director in Equity Research*

Good morning folks, thanks for taking my question. Maybe just to go back to some of the things you talked about in the original comments on the pipeline of new investment activity and the fact that you continue to emphasize the private capital area. A 2-part question, if I may. One, just financially, the capital available for new investments. It sounds like you've got the $1.25 billion revolver and call it, $1 billion in cash flow and then I know you're paying down to I think, a $400 million tranche in February. So I just wanted to sort of get a feel for available capital?

And then secondarily, what areas are, do you think in the investment pipeline in terms of private capital asset classes that you would think that you might be adding to? Would it be more of the same? Or are there different areas that you would want to focus on? Or would you look to potentially just invest more in your current private capital Affiliates and help them develop?

Jay C. Horgen - *Affiliated Managers Group, Inc. - President and Chief Executive Officer*

Thanks, Brian. Let's see. I'm going to take the new investment pipeline question and what we're looking for, and then I'll turn it over to Tom to talk about financial capacity and kind of balance sheet movements. I think those are two good questions, and it might take us a minute to go through both of those.

So what are we looking for? I will just remind everyone, it's much broader than private markets. Although private markets we're very much focused on, we're really focused, though, at the higher level on areas that we think are going to grow, receive client allocations over time in our long-term durable trends. So when you look at where we're spending our time won't be surprising to you. We're looking for specialized high-quality independent firms that operate in these areas. And we think that they have an edge relative to larger firms just because they're aligned with their clients and there's entrepreneurialism in those businesses, and there's an ownership mindset. So independent partner-owned firms in areas of secular growth is generally our origination and prospecting efforts on the new investment side.

So where do we see growth? Obviously, in private markets, we've talked about that. We see it in very specialized areas. Tom talked about it, but we have now 8 Affiliates operating in those areas. And each Affiliate has a specific orientation for their clients and the ability to kind of add adjacencies to their business. So private markets is absolutely an area we're looking for. And frankly, it's more constructive to do private market deals today after a period of high valuations, we see valuations moderate in the segment. And frankly, there's better structures that share the risk of management forecast between buyer and seller. So I think it's easier for us to do those investments in private markets. Liquid alternatives is another area that we are very focused on. We like the absolute return and opportunistic strategies within liquid markets.

We think a higher rate, higher inflation, more sideways market really is something that we haven't seen in a long, long time. And therefore, when we look forward, we think that liquid market alternative firms will fill the need for institutional and wealth investors to generate returns in sideways markets or volatile markets, and we think liquid alternatives is important for portfolios. We talked about these sort of mega-trends within the sustainable universe, those generally around health care, data management, energy transition, the carbon economy. They can come in a liquid manager, but it can also come in a private markets manager and we're very focused on that. And then lastly, we continue to look at wealth businesses as well as businesses operating in economies such as Asia, where we do see long-term secular growth. The medium-term prospects are improving for us there. It's been more difficult in the short term, but we are still looking.

And then the last thing I'd say about the new investment environment is it's very constructive right now. Because valuations have come down, because structures better share risks, I just think the probability that we'll convert our existing prospecting activity into new pipeline and that pipeline into deals into new investments is improving, increasing. As you heard me say in my prepared remarks, we've advanced several attractive investment opportunities during this past quarter, just like we had in the quarter before and the quarter before that, and we've announced two deals year-to-date. So we continue to believe that we have real good opportunities to invest in growth in new Affiliates, but there are also opportunities to invest in growth in existing Affiliates as we mentioned. And we're trying to do both, and we're trying to pick up on the same trends, both within new Affiliate transactions as well as existing Affiliates. So maybe now I'll turn it to Tom to talk about financial capacity.

Thomas M. Wojcik - *Affiliated Managers Group, Inc. - Chief Financial Officer*

Yes. Thanks, Jay. And Brian, thanks for your question. Maybe I'll start and just talk a little bit about the debt pay down and then go into capital overall. But overall, we feel really good about the way our debt has been implemented over the last several years. We've really optimized for two core principles. One is we've wanted to extend duration to match the long-duration Affiliate partnerships that we have. And second, we really want to make sure that we enhance flexibility so that we always have the optionality to execute against our forward opportunity set, which is robust, as Jay just went through.

Today, about $1.1 billion of our debt is fixed out in long-duration junior securities, where we have roughly 30 years of average duration at attractive fixed rates. So that's just excellent paper for us and really gives us a lot of flexibility. And then the remainder is well-laddered senior institutional and bank debt maturing over the course of the next 7 years or so. We're currently running comfortably below our baseline 2x leverage levels, and net of cash, that long duration $1.1 billion is about 70% of our total balance sheet exposure in terms of leverage. As we think about this February maturity, as we've talked about in the past, we've been holding match duration treasuries against that. And we are planning to pay that bond off in the first quarter. And that's really a function of some of the EBITDA that's been capitalized away from us at very attractive rates and just rightsizing our overall debt level.

Importantly, though I used the word earlier, optionality, and that's something that we feel very strongly about. We always have the ability to re-lever. We have the $1.25 billion revolver. We have clear access to public debt markets. And I think the primary reason you'd see us re-lever in the future would be if we saw a series of high-quality growth investments come across in terms of new investments, the ability to put capital to work in new product launches that would probably give us the opportunity to want to put some leverage back in the system. And obviously, lots of those opportunities would come with incremental cash flow as well. So in terms of capital we have to put to work, today, we have more than $500 million of cash above and beyond contemplated debt repayment and our repurchase guidance that can be deployed towards growth investments over the next several quarters. And that translates into more than $1 of incremental earnings power. And of course, as we go into 2024, the business will continue to generate substantial cash flow.

Now all that said, even with all the opportunities in front of us, as we've shown over the last 5 years, we've been very disciplined. And if we don't end up finding great growth investments over the medium term, I think we have a demonstrated ability to return capital through repurchases and both of those opportunities give us the chance to drive earnings per share growth over time.

Jay C. Horgen - *Affiliated Managers Group, Inc. - President and Chief Executive Officer*

Yes. And I'll just pick up there. I mean, we are disciplined and we want to emphasize that disciplined nature. I think the important thing for us is to invest our shareholders' capital for growth and with returns that we believe are in the mid-teens for our investors. But to the extent that we don't find those new investments, we will return capital and we have returned capital.

Just so everyone's tracking, over the last 5 years, we invested $1.6 billion in growth investments and returned over $2 billion in capital through repurchases. And we expected that pattern will continue. I think our goal is to increase the growth investments, but in all cases, we'll be disciplined. Thanks, Brian.

Operator

Our next question comes from the line of Michael Brown with KBW.

Michael C. Brown - *Keefe, Bruyette, & Woods, Inc., Research Division - MD*

Thanks for taking my question. So I wanted to switch over to the equity side of the business. So that's about 43% of your EBITDA today and 26% from the global equity side. So the flow pressure there continues to be unrelenting really for the industry and is still a challenge for you guys as well. I guess in light of some of those mega-trends that you referenced, how are you really thinking about the equity side of the business, specifically the global equities piece.

Is that something that can start to see a bit of an improvement here as we look out to 2024? What are you may be seeing or hearing from the institutional investors as they think about their broader asset allocations and what that could mean for the flow picture there?

Jay C. Horgen - *Affiliated Managers Group, Inc. - President and Chief Executive Officer*

Yes. So I'm going to have Tom start with the detail, and I do have a couple of comments that I'll come back to after that.

Thomas M. Wojcik - *Affiliated Managers Group, Inc. - Chief Financial Officer*

Yes. Thanks for your question, Mike. I think it starts, as you mentioned, with the overall industry dynamic and the environment, and I spoke to this a bit in the answer to a previous question. But I think clients are really challenged in terms of how they're thinking about the global equity market environment today.

So the first thing that I think really needs to happen to see some stabilization and flows for the industry is to see some stabilization in the overall global economy, both from a macroeconomic perspective as well as from a geopolitical perspective. The second thing, of course, is you do have to have good performance. And we have the benefit of excellent long-term performance across many of our global equity managers but certainly some more challenging near-term performance. So seeing some near-term stabilization and performance to go alongside the quality of brands and the quality of long-term track records that many of our Affiliates exhibit would also go a long way toward helping us there.

The other thing is we continue to be in a market that's changing. And the way that clients, both on the institutional side as well as the wealth side, are looking to implement these strategies into portfolios and are looking to consume these alpha streams in terms of wrappers, I think, continues to evolve. And that's an area that we're also spending a tremendous amount of time on with our capital formation efforts and through our Affiliate product strategy and development group, we're thinking more about the right ways to deliver some of these unique investment capabilities to end clients, exploring new wrappers, really thinking through the right way to deliver and implement these strategies into portfolios.

So I think we have some tools at our disposal. We have some changes that need to happen in terms of the overall market dynamic and client preferences. But overall, we have an extremely strong bench of long-term track records that we know that clients will demand when we get to a place in the environment that ultimately is a bit more constructive for some of these strategies.

Jay C. Horgen - *Affiliated Managers Group, Inc. - President and Chief Executive Officer*

Yes. And I think I'll summarize one of the things that Tom said by saying we have a firm view here that the next 10 years of investing in sort of differentiated equities is going to look very different than prior 10 years. I think the market environment is completely different, risk-free rates are much higher, higher volatility, more asset dispersion. And we think that that's actually good for fundamental managers. I think everyone knows that AMG has always had more of a value and quality bias within the equity book. And we think that plays well to the environment that we're in or heading into.

And there is obviously the macro backdrop that Tom just mentioned, but that's going to change over time, too. And given the differentiated strategies that our Affiliates offer and the entrepreneurial nature and the ownership mindset of the businesses by being independent firms, we think those are the firms that clients worldwide will turn to for their active equity portfolios. Thank you.

Operator

Thank you. Mr. Horgen, there are no other questions at this time. I'll turn the floor back to you for final comments.

Jay C. Horgen - *Affiliated Managers Group, Inc. - President and Chief Executive Officer*

Well, again, thank you all for joining us this morning, and we look forward to speaking with you next quarter.

Operator

Thank you. This concludes today's conference call. You may disconnect your lines at this time. Thank you for your participation.