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AMG.N - Q1 2024 Affiliated Managers Group Inc Earnings Call

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Company Summary

REFINITIV

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PRESENTATION

Operator

Greetings, and welcome to the AMG First Quarter 2024 Earnings Call. (Operator Instructions) As a reminder, this conference is being requested. It is now my pleasure to introduce Patricia Figueroa, Head of Investor Relations. Thank you. Please go ahead.

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 first quarter of 2024. 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; Tom Wojcik, Chief Operating Officer; and Dava Ritchea, 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 delivered strong results in the first quarter of 2024. With $260 million in EBITDA, driven by continued momentum across both our private markets and liquid alternative strategies. And together with the positive impact of our disciplined capital allocation, we generated economic earnings per share of $5.37, representing a 28% growth rate year-over-year.

During the quarter, our ongoing collaboration with Affiliates resulted in a number of exciting developments, including new product launches and continued strength in private markets fundraising, which position our Affiliates for long-term success and accelerate AMG's growing exposure to alternatives, through both private markets and liquid alternatives. Our value proposition for independent partner-owned firms continues to resonate with prospective Affiliates, given our proven partnership model and our ability to strategically magnify their competitive advantages, while also preserving their independence.

During the quarter, we advanced several attractive new investment opportunities, and with our increased financial flexibility, we have a significant opportunity to invest our capital in new and existing Affiliates to accelerate AMG's business mix evolution and our long-term growth. And, in April, we evolved AMG's leadership team, further aligning our talent with our growth prospects by expanding roles for key executives to capitalize on our momentum in capital formation and Affiliate engagement and by recruiting new leaders with experience in our focus areas of private markets and liquid alternatives.

As a strategic partner, AMG engages with our independent Affiliates to enhance their long-term success, including by offering seed and growth capital, business and product development, institutional and wealth distribution and succession planning expertise. This distinctive approach enables Affiliates to build on existing strengths, as illustrated by the success of two of our alternative Affiliates: Pantheon and Systematica.

In March, supported by our long-term engagement, Pantheon announced its management succession plan. Kathryn Leaf will become Chief Executive Officer, succeeding Paul Ward, who will become Executive Chairman. Having built Pantheon's highly successful infrastructure business, and given her extensive experience as a private markets investor, Kathryn is well positioned to lead the next generation of executives at Pantheon, and the ongoing evolution of their business.

In addition, AMG has collaborated closely with Pantheon on its growth opportunities over the years, investing our capital and resources to develop and distribute new Pantheon strategies and products to meet evolving client needs. Together, we successfully launched one of the first evergreen funds in the private equity space, the AMG Pantheon Fund, which is now one of the largest and most established private markets products in the U.S. wealth channel with more than $3 billion in assets under management.

Building on that success, we have further supported Pantheon's strategic growth by seeding a new private equity fund for the non-U.S. wealth market, and partnering to launch, seed and distribute a first of its kind private credit secondaries interval fund.

Since AMG's investment 14 years ago, which reestablished Pantheon as an independent partner-owned firm, its assets under management have grown from approximately $25 billion to more than $65 billion. The combination of the Pantheon partners' entrepreneurial spirit with AMG's strategic engagement, catalyzed the firm's transformation from a private equity fund-of-funds business to a leading solutions provider in private markets -- across private equity, infrastructure, credit and real estate -- to both institutional and wealth clients globally.

Also in 2024, in partnership with Systematica, one of the industry's leading independent technology-driven investment managers, we launched and seeded, and will distribute a new trend-following fund, expanding Systematica's reach into the U.S. wealth market. The firm is led by Leda Braga, whose decades of experience as an innovator in quantitative investing has enabled Systematica to deliver outstanding performance for clients.

Similar to Pantheon, when we first invested in Systematica in partnership with Leda nearly a decade ago, we established it as an independent partner-owned firm. Our ongoing collaboration with Systematica's management team on strategic initiatives has resulted in substantial growth and business diversification, enhancing the firm's durability and its capabilities.

Systematica has grown from a single-product business at the time of our initial investment, to a firm with $17 billion today, offering a suite of differentiated strategies and customized solutions across trend-following, macro and relative value, and equity market neutral. Given Systematica's excellent long-term performance and the ongoing client demand for liquid alternatives, we are excited about the firm's prospects and the ability to continue to create significant value together.

Pantheon's and Systematica's success demonstrate the power of AMG's unique partnership model to strategically engage with our Affiliates to enhance their long-term prospects while also supporting their independence. More broadly, over the past several years, we have deliberately diversified our business through capital allocation. The combination of our investments in growth opportunities at existing Affiliates, and our investments in high-quality new Affiliates operating in secular growth areas, has reshaped AMG's business profile from one characterized largely by long-only strategies to one with a majority contribution from alternatives.

Today, with half of our earnings coming from alternative strategies, balanced across private markets and liquid alternatives, AMG's business profile is unique in our industry. Our diversified portfolio of high-quality independent partner-owned firms operating across private markets, liquid alternatives and differentiated long-only strategies is a competitive advantage that both enhances our earnings stability -- given the complementary nature of these strategies -- and also supports our capacity to continue investing in the areas of highest growth and return.

AMG's strategic expertise in collaborating with partner-owned firms has been honed over the course of three decades of successful partnerships and is increasingly attractive to independent firms seeking an engaged strategic partner. We have been one of the most active investors in independent asset managers over the past five years, having made 10 investments in new Affiliates since 2019.

Looking ahead, given our 30-year track record, our new investment origination capabilities, and our significant financial flexibility, we are well-positioned to increase our level of new investment activity, particularly in alternatives. As always, we will remain disciplined in our capital allocation decisions as we continue to strategically evolve AMG, investing in growth while also returning excess capital to shareholders.

Now, before I turn the call over to Tom, I want to take a moment to congratulate him on his new role as Chief Operating Officer in alignment with our increased focus on magnifying our Affiliates' long-term success, especially through collaboration on capital formation initiatives. I also want to congratulate Kavita Padiyar on her new role as General Counsel; and welcome Dava Ritchea, our newly appointed Chief Financial Officer to the team. We have known Dava for many years and given her direct experience with AMG's partnership model and her extensive experience in private markets and liquid alternatives, she is uniquely positioned to make valuable contributions to AMG. As evidenced by our ability to both develop outstanding talent within AMG and also attract excellent leaders to our team, AMG is thriving and well positioned for future growth.

And with that, I'll turn it over to Tom.

Tom Wojcik - *Affiliated Managers Group, Inc. - Chief Operating Officer*

Thank you, Jay, and good morning, everyone. I'm proud to have served as AMG's Chief Financial Officer for the past five years and look forward to the contributions that Dava will make to AMG going forward. Having been a public company CFO in our industry, her experience and skill set are well suited for both the current and future state of our business. I'm also excited for my new role and the opportunity to focus on driving organic growth through our product development and capital formation capabilities, as well as direct strategic engagement with many of our largest Affiliates.

Our first quarter results reflect the strong momentum we are experiencing across our business -- in each of private markets, liquid alternatives and differentiated long-only strategies. In private markets, our Affiliates and their excellent performance continued to drive strong fundraising and organic growth. In liquid alternatives, outstanding investment performance contributed to significant net performance fee earnings and continued business momentum. In differentiated long-only strategies, we benefited from rising asset levels and strong investment performance in the quarter.

We also strengthened our balance sheet by extending the average duration of our debt to more than 20 years, innovated alongside our existing Affiliates on several product development initiatives, and returned excess capital through share repurchases. Our actions reflect AMG's attractive opportunity set, and as we continue to execute our disciplined capital allocation strategy, we are confident in our ability to generate significant long-term shareholder value.

Turning to our first quarter results. Adjusted EBITDA of $260 million grew 20% year-over-year and included $40 million in net performance fee earnings, as well as $20 million in catch-up and other fees from private markets Affiliates. Economic earnings per share of $5.37 grew 28% year-over-year and further benefited from the impact of share repurchases.

This quarter, we are returning to our historical "as reported" basis for net new flow reporting and will no longer report flows excluding certain quantitative strategies. As you may recall, we moved to the "ex-quant" paradigm several years ago, given the significant disconnect between the outflows we were seeing in "certain quant" and the muted impact on our earnings given the de minimis EBITDA contribution of those flows, and that gap has now sufficiently closed. In the first quarter, our net client cash outflows of $(4) billion reflect strength in private markets fundraising, offset by fundamental equities.

Turning to performance across our business. In alternatives, we again reported strong results with nearly $5 billion in net inflows in the quarter driven by private markets fundraising in strategies including private credit, infrastructure, private equity and solutions mandates from both institutional and wealth clients. Our private markets Affiliates continue to generate outstanding investment performance, and we expect the strong demand they are seeing from clients to continue.

AMG's 8 private markets Affiliates manage approximately $120 billion in client assets and operate in areas of significant long-term demand, including infrastructure, private market solutions, private credit and specialty areas like industrial decarbonization, life sciences and multi-family real estate.

In liquid alternatives, our Affiliates continue to deliver excellent investment performance, particularly in quantitative strategies, and saw improved demand trends in the quarter. Given our Affiliates' outstanding performance over the last three years across a range of products, a significant portion of our performance-fee-earnings-eligible AUM is currently above high-water marks and we are well-positioned to capture growing demand trends and add diversification and stability to client portfolios.

Within differentiated long-only strategies, we entered the second quarter with higher AUM levels and earnings power, driven by market beta and investment performance, despite net outflows of approximately $10 billion in equities. We generated inflows of $2 billion in multi-asset, driven by strength in wealth management and ongoing demand for fixed income strategies.

Now moving to second quarter guidance. We expect adjusted EBITDA to be between $215 million and $220 million based on current AUM levels, reflecting our market blend, which was down 1% quarter-to-date as of Friday, and including seasonally lower net performance fee earnings of between $10 million and $15 million. We expect second-quarter economic earnings per share in the range of $4.50 to $4.60, assuming an adjusted weighted average share count of 33.9 million shares for the quarter. We've posted a guidance reconciliation slide to the Investor Relations section of our website, where you can find detailed modeling items, and, given the activity on our balance sheet through a combination of debt repayment and issuance in the first quarter that I'll touch on in a moment, I wanted to highlight the interest expense line item of approximately $34 million in the second quarter.

Finally, turning to the balance sheet and capital allocation. Our balance sheet continues to be in an excellent position. During the quarter, we issued $450 million of 40-year junior hybrid notes, which offset the repayment of $400 million in 10-year notes that came due in February and the paydown of $50 million of our term loan. Taken together, these actions extended the average duration of our debt to more than 20 years and further enhanced our financial flexibility to execute our growth strategy.

We continue to maintain significant liquidity to not only make growth investments in new and existing Affiliates, but also to continue to return excess capital to our shareholders. We repurchased approximately $150 million in shares in the first quarter, and for the full year 2024, we now expect to repurchase at least $450 million in shares, subject to market conditions and new investment activity.

In addition, we expect to invest up to $100 million in seed capital this year alongside our Affiliates in new alternative products for the U.S. and global wealth markets, including approximately $20 million that was funded in the first quarter. We expect the balance of that capital to support the products Jay discussed at Pantheon and Systematica, as well as at Comvest Partners to bring non-sponsor-backed middle-market direct lending to wealth clients. As part of our capital formation capabilities, including product development, operational support and comprehensive sales coverage, AMG's vertically integrated U.S. wealth platform enables Affiliates to access the large and growing wealth market that is difficult, or in many cases impossible, for independent firms to enter on their own.

We are excited about the opportunity to engage with our Affiliates to bring a series of differentiated alternative offerings to the market by combining our multi-decade experience in U.S. wealth and our substantial balance sheet capital with our Affiliates' investment expertise. Today, AMG's balance sheet has approximately $400 million in value across private market GP commitments, seed capital and strategic investments, and we expect that balance to grow over time as we continue to partner and launch products with new and existing Affiliates with a focus on private market strategies.

The momentum in our business is accelerating, and with the excellent performance of our Affiliates managing alternative strategies, our diverse set of Affiliates positioned for growth, our strong balance sheet and significant liquidity, we are well-positioned to invest in and alongside our Affiliates in addition to making new Affiliate investments in areas of secular growth to drive incremental shareholder value over time.

Now we're happy to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Today's first question is coming from Craig Siegenthaler of Bank of America.

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

Good morning, Jay and Tom. I hope you're doing well. And Tom, we wanted to offer you a big congrats on being named COO in the quarter, too.

Tom Wojcik - *Affiliated Managers Group, Inc. - Chief Operating Officer*

Thanks Craig. Thank you for that.

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

We wanted to dive a little deeper into the positive inflection in institutional channel net flows. So we know there's always some lumpy wins and redemptions in this channel. But based on the composition of the flows in the quarter, the current pipeline, can you provide us your thoughts on the ability to maintain positive flows in this channel going forward?

Tom Wojcik - *Affiliated Managers Group, Inc. - Chief Operating Officer*

Craig, let me answer the question on institutional and then maybe just broadly spend a few more minutes on the overall flow profile and importantly, how our strategy is really influencing that flow profile over time. On institutional, what you're seeing is really the strength of private markets, and that's where we've seen extremely strong fundraising, not only in the prior quarter, but over the course of the past several years. And I think what came through this quarter was a combination of that continued strength in private markets, some stability in the liquid alternative side and then some general improvement in terms of what we've seen in long-only.

Now when you put that in the context of our overall flow profile and just kind of thinking about the business. As I said, the main point to take away is that our growth strategy is continuing to drive an evolution of our business mix more towards secular growth areas, and especially alternatives with a focus on private markets. And as we continue to execute against our strategy, we do expect to continue to enhance the long-term organic growth and earnings growth profile of the business. And I think you've seen that really over the course of the last five years as alternatives have gone from less than 1/3 to more than half of our business on an EBITDA basis.

You saw it this quarter, again, that sort of push and pull between the strength we're seeing in private markets and some of the headwinds on long-only, and that will be a big driver of where we land on institutional, but also where we land overall.

On the long-only side, particularly within fundamental active equities, there is some volatility and sometimes it is a bit hard to predict, but we did have a better quarter here in the first quarter. On private markets, we're continuing to benefit from the diversity and the depth of those Affiliates, they're raising assets across a number of really well-positioned strategies, infrastructure, credit, private market solutions, specialty areas like industrial decarbonization and life sciences. And as you know, these are really valuable flows for AMG given their fee rate, their long duration and the potential to generate carried interest over time.

And then on liquid alternatives, we're seeing excellent investment performance. We saw that drive very strong performance fee earnings here in the quarter, and we've seen that now over the course of the past several years and we're continuing to see more and more demand for liquid alternative strategies from clients as they think about the volatility of the markets that we're investing in today and what the course of the next decade may look like in terms of their portfolio construction.

One other thing to mention is we did have a very strong quarter in multi-asset and fixed income across our wealth management businesses as well as some of our fixed income products there as well. So when you put it all together, a sizable portion of our business is both inflowing today, as well as very well positioned for the future. And we feel very confident in our ability to generate growth and that our strategy is going to continue to push us more over time as we evolve our business mix toward client demand trends and toward growing areas like alternatives.

Operator

The next question is coming from Bill Katz of TD Cowen.

William Raymond Katz - *TD Cowen, Research Division - Senior Analyst*

Okay, thank you. Good morning, everybody. Tom and Dava, congratulations both. Dava, looking forward to working with you again. So just, Jay, maybe for you, it sounds like there's a lot of good things going on in terms of seed capital back into the business, a bunch of new funds coming to market in the wealth management section and then sort of stepped up the buyback. How do we think about deal activity against the other uses of capital as we look ahead to '24 and '25?

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

Yes, good morning to you, Bill, thanks for your question. Let me start by just saying, our strategy as simply stated, is to invest in areas of the highest growth and return in our industry. And we do that by investing in new Affiliates and also investing in and alongside our existing Affiliates. So I think that does capture what you were just saying, which is our goal is to invest in new Affiliates, seed capital alongside existing Affiliates and obviously, other areas with existing Affiliates like distribution in places that we can help them accelerate their own business plans. To the extent that -- and I'll just touch on it really quickly -- to the extent that we cannot find investments to meet our required returns, we will look to give that excess capital back to shareholders, which has led to significant repurchases over time. Again, our first goal is new investments, and we are seeing healthy flow of new investment opportunities, I should say. Last year, we did 2 new investments. I think I mentioned on a prior call that we had the opportunity to make several other new investments last year, and we chose not to. So we are seeing a steady flow. I think the pipeline is there. Obviously, it's a competitive environment. We continue to compete well. I think our opportunity in the market is that we're both strategic with those Affiliates and proving that we can magnify their existing advantages. But we also are able to maintain their independence, preserve their independence and that being strategic in maintaining independence is really unique in the market.

As it relates to the question of what we're looking for and our opportunity set, we are continuing to search for new Affiliates in areas of secular growth. Tom mentioned that as it relates to our overall business mix, the more investments that we make in Affiliates that are operating in areas of growth, you will see our flow profile change over time. It has changed over time.

Even if you just look back 5 years, we were about 1/3 in alternatives. And today, we're over half from an EBITDA contribution. I think that number is going up. So when you look at our pipeline, our existing pipeline, you would see both private markets businesses and liquid alternatives. I did mention in my prepared remarks that we did move forward in conversations with several new prospects this past quarter.

As we look forward to the rest of the year, we do think that there's a great opportunity for capital going into new investments, again, to continue to evolve our business. At the same time, we're very active in making investments alongside of our Affiliates. Tom mentioned in his prepared remarks that we are stepping up our efforts in seed capital. We've launched a number of products with Pantheon this year, Systematica, and we're looking to do more with Comvest, which is our credit direct lending business.

And that is really in an effort to capitalize on an opportunity that we see in the marketplace to continue to drive growth in the wealth channel with these private markets businesses. It's another reason why we've moved Tom over to the COO role, he is going to be overseeing the capital formation business for us. And so our own actions with our management team are sort of highlighting where we see strategic opportunity.

So whether it be investments in new Affiliates or investments in existing Affiliates in and alongside, we do see an opportunity this year to put substantial capital into those opportunities. We also think that given our flexibility on our balance sheet, we have a tremendous amount of liquidity, a very strong balance sheet, you probably saw that we extended the duration of our balance sheet by doing some 40-year securities in the quarter. We're in a great position to return capital to shareholders as well, which we would expect to do as per our comments -- as per Tom's comments this year, doing more than $450 million in repurchases for the full year. Thanks for your question, Bill.

Operator

The next question is coming from Dan Fannon of Jefferies.

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

So I wanted to follow up on liquid alternatives. It sounds like certainly improving trends, but maybe not in inflows yet. So curious about the gross sales versus gross redemption trends within that bucket? And then given your comments, Tom, about being above the high-water mark for a large percentage of that AUM, how you're thinking about performance fees in the context of the remaining of this year versus maybe historical ranges?

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

Yes. So I'm going to have Tom take that question, Dan. Maybe I'll just start by saying, our liquid alternatives business across all the Affiliates that operate -- there's, say, 6-7 Affiliates that are in that category -- in the main are producing significant positive performance for us, which has led to the above high-water marks. It has also led to rising asset levels, which, of course, does mean potential for higher performance fees.

And I think we see, I guess, more opportunities around the world, more clients noticing this unique return stream that frankly is complementary to both private markets and to long-only strategies. So we're very constructive about the prospects. It has been, as you noted, a little slow in terms of the uptake on significant positive flows. But honestly, it's been a pretty good period for liquid alternatives if nothing else by performance alone. But I would say that we are seeing good client activity. I'll let Tom give you a little more detail.

Tom Wojcik - *Affiliated Managers Group, Inc. - Chief Operating Officer*

Yes. Thanks for your question, Dan. I think Jay touched on a number of the key themes in his initial remarks here. If you look at what we've seen in liquid alternatives, there really are two pieces to the story. One is excellent overall investment performance. And we're seeing that in a number of areas across the liquid alternatives Affiliates, in quantitative strategies, in trend-following strategies, in relative value strategies. So one of the core elements of why liquid alternatives are so valuable to AMG overall is that diversification, and the fact that those businesses are able to perform in different environments, often with low or no correlation to equity markets. And we're continuing to see these businesses perform really well for clients and you're seeing that come through for us in the form of performance fee earnings, both here in the first quarter as well as over the course of the last several years.

In terms of trends, I know we talked on the fourth quarter call, we did see some headwinds in liquid alternatives in the fourth quarter. So it was really nice to see that bounce back here in the first quarter. Overall, flows in liquid alternatives in the first quarter were roughly flat versus a fairly meaningful outflow number in the fourth quarter. So a pretty good improvement. And when we think about the longer term, again, Jay touched on some of this, but the real push-pull is these strategies have really been outperforming in client portfolios.

So for those who have an existing allocation to liquid alternatives, we have seen a little bit of rebalancing over the course of the last couple of years, where strategies that have put up 10%, 20%, 30%, 40% positive returns have offset some of the volatility and headwinds that clients have seen, either in their long-only books or when dealing with some of the denominator effect impacts in their private equity books.

At the same time, there are a number of clients who don't have a large enough liquid alternative allocation in their portfolio. I think that's where a lot of the new client conversations have been particularly compelling, and where we and our Affiliates are really excited going forward where we think having come off this decade post the GFC, a very low volatility, a lot of up and to the right high correlation markets, there are a number of clients who moved out of liquid alternatives, frankly, at exactly the wrong time and felt the pain of that decision in the 2020 and 2022 time periods.

So we do see a lot of new client conversations around where these products should live in portfolios. As you've probably seen from the industry data, you're starting to see some momentum building in retail liquid alternatives, which was a big theme 10 years ago and has kind of quieted. So we're starting to see some momentum there in the industry. So we continue to think that there are a lot of opportunities for AMG, our Affiliates and their clients across all three of those buckets. Investment performance, the performance fee earnings that can drive and ultimately populating and repopulating portfolios and driving organic growth in that category.

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

Yes. I mean, I'll just finish, Dan, by saying, I think we're actually somewhat surprised that more institutional managers or allocators haven't noticed the alpha that's being generated, especially on the quant side, you know with the CTAs and some of the quant managers, significant alpha as well as in the relative value fixed income space and the multi-strat space.

I mean, the traditional long, short hedge funds, which we don't have much of, have not performed, but almost every other category has. And so the interesting thing that I would say is, the thing that our people are going to notice, I think what we are expecting to do is bring some of those products to the wealth space where we actually do think allocations will grow, both in the RIA, the single and multifamily offices, and of course, the wirehouses.

So we are looking forward to that opportunity. And frankly, if they continue to put up the numbers that they have, it will help AMG's earnings, but it will also hopefully eventually get into the minds of allocators because they do need these products in their portfolios as an offset to their private markets and their long-only strategies.

Operator

The next question is coming from Brian Bedell of Deutsche Bank.

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

Congrats, Tom and also welcome, Dava. Just sticking with that theme in the alternatives and especially in the private markets fundraising, can you talk about, I guess, your confidence that the sales number on the alternatives side, you can see potentially secular growth in that sort of quarter after quarter, given the pipeline of new products that are coming in, the contribution from private markets, and then especially as you just talked about on the quant side, from the demand, I guess, both from AQR versus its historical trend, at the same time, seeing less outflows from that. So I guess the overall question is, should we really be seeing that alternatives line as sort of a leading net flow indicator on a go-forward basis?

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

Yes. Thanks, Brian, for your question. I'll let Tom start.

Tom Wojcik - *Affiliated Managers Group, Inc. - Chief Operating Officer*

Thanks, Brian. In a way, I think the story has been very consistent in the way that we're thinking about alternatives and in the results that we've put up in terms of alternative performance and flows really now over the course of the last couple of years. In terms of our confidence in private markets on the sales side, there are a number of things that are really driving that confidence and they're core to the strategy that we're employing at AMG really across the board.

The first is that we continue to look to add Affiliates to that group. We have 8 private markets Affiliates today, now managing $120 billion in AUM. We added two last year. And as Jay said in his answer to a prior question, that continues to be a real area of focus. And that focus is linked, I think, in a lot of ways to the success that we're having with our existing Affiliates, in terms of helping them with product development, with fundraising and with accessing the U.S. wealth channel with some of these limited liquidity products, as well as the opportunity to bring their flagship drawdown funds to the channel in a way that I think is extremely compelling given the sales resources that we have and our ability to penetrate advisers in the channel.

So if we think about what's happening overall in terms of private markets, one, we're just attracting high-quality businesses; and two, once those businesses are at AMG, we have the ability to help accelerate move them into different channels, move them into different products and that can have a multiplier effect over time.

The other thing that I'd mention is that the businesses that we've invested in, in private markets have been and will continue to be intentional. We've really focused on businesses where independent firms have a clear comparative advantage, oftentimes, specialty products, products that are really alpha-oriented and output-driven. And we've avoided some of the more commoditized larger cap parts of the market where you've seen the big denominator effect impact hit fundraising over the course of the last couple of years.

And then lastly, on liquid alts, I think I hit a fair amount of this in my answer to a prior question. But again, now that we're staring down track records that in most cases across three years, and really when you look across 5- and 10-year track records as well, you have very strong overall investment performance aligned with very strong brands, and our ability oftentimes to help in terms of product development and entering new channels. We think we're well positioned in liquid alternatives as well, both on the gross sales side, but also, frankly, on the redemption side, given that these products do continue to perform the way that they're supposed to and are driving a lot of upside in client portfolios.

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

Yes, let me just try to bring the sum of all these questions together because we talked about capital allocation, and we've talked about where we see growth. In the three areas that our Affiliates operate; private markets, liquid alternatives and differentiated long-only strategies, I would say that we are and have been seeing really over the last five years, a mix shift at AMG. So today, we have over $125 billion in private markets, over $200 billion in liquid alts in the balance and differentiated long-only. We continue to see that our capital is going into the alternative segment, both in and alongside the Affiliates, but also in new Affiliates. We have some excellent, very strong differentiated long-only strategies. We've had a historical balance to having a greater percentage in that area. We see that balance between the three segments being more balanced in the future.

So for 50% today in alternatives, we would expect that to be 60%, maybe even 2/3 at some point in the next five years. That is where we think that business is going. And that reflects not only where the flows are coming from, but where the growth is coming from and frankly, where our capital is going to.

Operator

The next question is coming from Patrick Davitt of Autonomous Research.

Michael Patrick Davitt - *Bernstein Autonomous LLP*

Congratulations on your new roles. I have a quick follow-up on the transaction activity commentary. You mentioned it's competitive, and we continue to see fairly high deal volume for smaller alternative managers. And I think you mentioned you chose not to follow through with some. So could you maybe expand on the pricing dynamics there? And to what extent pricing is keeping you out of the flow? And are there any signs that the pricing has topped out and could maybe get more attractive for you?

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

Yes. Thanks, Patrick, and good morning. Yes. So I will follow up on the prior comment. Maybe just starting with the statement that the activity has actually picked up and the activity that we're seeing is pretty significant. I mean, if you were to look at deal sheets of all the players in the investment management industry, you would see pretty significant volume. So I think there are transactions that are happening. There have been other times that you've been covering us or others have covered us where it has been slower. So we definitely see there's supply of new businesses out there. I will say that the needs of independent firms today are very different than they were 10 years ago or 20 years ago. They are very much looking for a strategic partner.

I think we fit that category, especially when you put it against the context that we've been operating in this business model for 30 years, and we know how to engage with independent firms. There is an art to that, and it is important to know that you have a partner who knows how to engage with independent firms. So that, I think we've proven, we are seeing growth at our Affiliates, especially where we engage and we're very excited about that.

I think the key differentiator for us is that we also actively preserve independence. And that's through equity ownership, succession planning, and frankly, even just advice around human capital in a lot of places. So just to kind of carve out where we compete effectively is where people want a strategic partner, but they also want to preserve their independence.

And I think in that category, we have a lot less competition than we've ever had. As you know, a lot of the traditional multi-boutiques have gone away. And what's left is stake buyers who only will buy a 15% to 20% stake. So really, where we seem to be most competitive is when we are more flexible in our approach by both being strategic and our ownership model is such that we can own anywhere from 20% all the way up to 70% of a business.

The other thing that is notable about AMG is that we have plenty of liquidity. And so we can write checks that are $250 up to $500. Those are significant cash checks for any independent firm. And so we're very competitive on that side as well. So when you look at AMG's competitiveness, we're in the category of probably as good as we've been in really any of the recent history. I think we're very front-footed in our origination. We're out calling on those firms and we're out developing relationships well before transactions happen, because having a relationship before a transaction in the market is the most important aspect of both our due diligence, as well as beginning that very important independent relationship that you have with these firms.

As it relates to pricing, which was, I think, part of your question, pricing for growth is still pretty extreme. It has been for some time. So where you see private markets businesses, in particular, that have grown really fast, you've seen pricing very high. I think we tend to look at transactions that are more in our context, in fitting with us where we can actually help Affiliates grow, I think that allows us to put a little structure in to allow for some risk-sharing between us and the new potential Affiliates.

I would say, we don't chase deals for pricing purposes. In fact, in most cases, when pricing gets extreme, we decide that it's better for us to repurchase our shares, frankly, just given where our stock has traded over time. So, in the category of meeting our returns, we do look for mid- to high-teens on a new investment. And when we aren't able to find that, and we can't seed more product for Affiliates, then we will look to return that capital, and we've been able to do that. And we've actually been able to make low- to mid-teens on our repurchases as well. So that's kind of, I think, the summary of where we see both our competitiveness in the market, but also where we see pricing.

Operator

The next question is coming from Alex Blostein of Goldman Sachs.

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

Good morning, everybody. I wanted to zone in again on the wealth channel and the progress you guys are making with respect to existing semi-liquid products and the new ones you're going to be rolling out. I guess, one, maybe help us frame how much these products contribute to the firm's EBITDA today? I understand it's not a huge number, but it sounds like it's growing nicely, and there's a plan for that to expand further. And then secondly, as you think about going to market with these strategies, can you talk a little bit about the competitive dynamics and what AMG brings to the table relative to other offerings, including how are you thinking about payment for distribution?

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

Yes. Great. So Tom, why don't you take that?

Tom Wojcik - *Affiliated Managers Group, Inc. - Chief Operating Officer*

Thanks for your question, Alex. On the first part, as you referenced, it's a relatively small contribution today, but one that's been growing rapidly. And I think we have a very clear strategy to get to scale. Clearly, the biggest contributor that we have in the U.S. wealth space today and alternatives is the AMG Pantheon fund, which has been a fantastic success story in the industry thus far. And we expect to continue building on from here with that fund now above $3 billion.

There are also a number of other products that we have in the U.S. wealth market, as well as internationally. So, there are several billion under management today that we're building a base from and we expect to continue to push going forward. Let me spend maybe a minute on exactly what we're doing in U.S. wealth and that can play into some of the competitive dynamics and why we think we're positioned well to be successful.

We offer a vertically integrated solution in the U.S. wealth market. And it's based on the fact that for really the last 30 years, we have a business that has been in that channel today at about $40 billion in terms of the overall size of the platform, in the channel covering the largest wire houses, the most sophisticated RIAs in a number of ways.

First, we're able to actually cover the home offices and the key decision makers and gatekeepers helping to get our products on to buy lists and better understand kind of the key demand drivers at the top of the house. And then second, with a wholesaling force in the field, one, specifically covering RIAs and, two, specifically covering the wirehouses in order to actually be in the field with advisers helping to educate as well as helping to explain why these products make so much sense in client portfolios.

So as we pivoted our strategy over the course of the last 18 months or so to capitalize on the alternative opportunity, one, we're doing so from a position of strength, given what we've been able to accomplish with the AMG Pantheon fund in partnership with Pantheon and the excellent work done by the teams there. And two, we're able to capitalize on the existing relationships where that $40 billion of independent partner-owned product already exists at these large allocators.

So we're really building into that. In terms of competitive dynamics, if you think about the way that clients ultimately allocate, of course, some of the leaders in the limited liquidity space thus far in the industry have been some of the biggest brand names in private markets. And those firms are always going to end up with a good-sized allocation.

Importantly, though, clients also want access to independent partner-owned firms, and that creates a bit of a conundrum in the market because those firms may have excellent underlying alpha characteristics and ability to create outcomes and client portfolios, but often they don't have the resources to have those conversations at the top of the house with the buying centers. And in particular, they don't have the resources to go out and be able to cover the field and educate advisers and ultimately sell through product. So AMG employs a general specialist model where we have the generalist salesforce in the market that can speak to the quality of independent partner-owned firms, really understands alternatives and then has the ability to bring in specialists from a Pantheon or from a Comvest or from a Systematica over time to get down to that next level of depth in really understanding the product.

So when you take that combination of -- we know there's tremendous demand in the market for independent partner-owned private markets and overall alternative solutions and there are very few firms that can actually provide the resource to cover the channel, that's something very special that we have at AMG. And I think you'll see over the course of the coming years that we're going to put a lot of effort and energy through seed capital and through investing in our business, as well as through continuing to work with our existing Affiliates and make new investments to bring a variety of high-quality products and also to become in a lot of ways, what we've been historically on the traditional long-only side which is the leading solutions provider in alternatives amongst independent partner-owned firms to the U.S. wealth channel.

Operator

Thank you. At this time, I'd like to turn the floor back over to Mr. Horgen for closing comments.

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

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

Operator

Ladies and gentlemen, thank you for your participation and interest in AMG. This concludes today's event. You may disconnect your lines or walk off the webcast at this time, and enjoy the rest of your day.

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