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AMG.N - Q1 2022 Affiliated Managers Group Inc Earnings Call

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OVERVIEW:

Co. reported 1Q22 economic EPS of $4.65.

CORPORATE PARTICIPANTS

Anjali Aggarwal *Affiliated Managers Group, Inc. - Head of IR*

Jay C. Horgen *Affiliated Managers Group, Inc. - CEO, President & Director*

Thomas M. Wojcik *Affiliated Managers Group, Inc. - CFO*

CONFERENCE CALL PARTICIPANTS

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

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

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

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

Robert Andrew Lee *Keefe, Bruyette, & Woods, Inc., Research Division - Associate Director Research*

William Raymond Katz *Citigroup Inc., Research Division - MD & Global Head of Diversified Financials Sector*

PRESENTATION

Operator

Greetings, and welcome to the AMG First Quarter 2022 Earnings Call. (Operator Instructions) As a reminder, this conference is being recorded.

I would now like to turn the conference over to your host, Anjali Aggarwal, Head of Investor Relations for AMG. Thank you. You may begin.

Anjali Aggarwal - *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 2022.

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, we posted an updated investor presentation to our website this morning 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. - CEO, President & Director*

Thanks, Anjali. Good morning, everyone.

AMG achieved strong results in the first quarter of 2022, with Economic Earnings per Share of $4.65, up 9% year-over-year, driven by growth in management fee earnings and continued capital deployment.

During the quarter, we announced two meaningful strategic transactions, involving Systematica and Baring Asia, that further demonstrate the successful execution of our strategy and our ability to create shareholder value. The full impact of these transactions will be reflected in our results later this year and into 2023, as we generate earnings growth from Systematica and redeploy capital from Baring.

AMG's business is enhanced by these two transactions, and the consistent and disciplined execution of our strategy over time has resulted in our strong position today. Our business is diversified and we have structural advantages inherent in our partnership model. Our high-quality Affiliates are generating strong performance across a wide array of in-demand areas, and we have a strong balance sheet enhanced by a recurring cash flow and significant incremental capital to invest.

Toward the end of last year, we saw a fundamental shift in the market environment for asset management, and over the past four months, that shift has become even more evident. Looking forward, we expect the ongoing rotation within our industry to continue, presenting new opportunities for the highest-quality active managers to deliver value for clients.

Given the combination of geopolitical tensions, elevated inflation, rising rates and an increasing focus on ESG, taking an active approach to investing is critical to achieving clients' goals and objectives.

Certain managers whose strategies resonated in recent years will need to adapt, while others that have adhered to their long-held investment beliefs, like many of our Affiliates managing value, relative value, macro and trend-following strategies, are seeing a pronounced resurgence in performance, and these strategies are demonstrating their importance in client portfolios.

While it's still early in this transition to this new environment, we have seen several themes emerge at our Affiliates. First, after a decade of underperformance, the comeback in value is benefiting numerous Affiliates, including Yacktman, EIG, River Road, AQR and Tweedy, Browne, given their excellent long-term track records and reputation as well-known value investors.

Similarly, Affiliates with relative value alternative strategies have generated strong positive returns this year as they have over the past several years, in particular, at Affiliates such as Capula and Garda.

In addition, macro and trend-following strategies have generated exceptional performance since the beginning of 2021, resulting in improving performance fee and flow [prospects] (added by company after the call) for AQR and Winton, and we continue to see inflows at Systematica given, industry-leading performance over the past three years.

Finally, while ESG strategies are being tested in the current environment, we view this as an opportunity for the longest-tenured, most authentic managers to separate from the pack and gain share, including Boston Common and Parnassus, where client demand remains strong.

In addition, over the past three years, we have meaningfully increased our exposure to areas of secular growth. In 2021, we added four new Affiliates operating in real estate, private credit, ESG and Asia. In 2022, we have further enhanced our business position with our increased ownership in Systematica, an innovative technology-driven firm focused on systematic investing. The firm is led by Leda Braga, one of the best-known thought leaders in quantitative investing, and she has built a franchise that continues to deliver outstanding performance.

Also in the first quarter, we announced a significant event for AMG shareholders in the merger of Baring with EQT. Given our alignment with the management partners of Baring and the strategic position of the combined entity, we believe the merger will be a win-win for all stakeholders. AMG shareholders will benefit from the considerable capital from this transaction as we will redeploy approximately $1 billion for the benefit of our shareholders. We are very pleased that AMG's alignment and engagement with Baring enhanced the team's ability to achieve their long-term strategic goals and that our partnership will culminate in an excellent outcome.

While this transaction may seem unique in the context of our history, it is very much in line with our strategy. When an Affiliate chooses to partner with AMG, the management principles select a partnership model that aligns with their long-term strategic direction of their business, and we are aligned with the future choices they make.

Through bespoke partnerships, we are able to address a broad set of objectives for independent firms and enhance Affiliates' long-term success. In the case of Baring, a strategic transaction was one potential outcome. And given our strong alignment, this transaction provided an opportunity for AMG's shareholders to realize significant value.

AMG's alignment with our Affiliate partners is differentiated in our industry. Our Affiliates' goals are our goals, and our purpose is to act as a catalyst for Affiliates to enhance their long-term business success and as a magnifier of their growth ambitions. We enter into every Affiliate partnership with a permanent approach and ready to invest alongside Affiliates as they execute on their opportunity sets and strategic growth objectives.

High-quality independent businesses are attracted to AMG's uniquely broad array of partnership solutions to address various stages of their development over time, from growth capital to distribution to succession planning.

AMG's strategic expertise in collaborating with partner-owned firms has been honed over the course of three decades of successful partnerships and our solutions are a direct reflection of the needs of independent firms. AMG has been one of the most active investors in independent asset managers over the past three years. Since 2019, we have made 9 investments in new or existing Affiliates deploying over $1 billion, and those investments generate nearly $175 million in annual EBITDA today. Moreover, these firms are operating in areas of secular demand including private markets, liquid alternatives, ESG and Asia, and have improved our overall growth profile.

Over time, we expect a larger portion of our EBITDA and flows to come from these fast-growing areas as we continue to invest in high-quality new Affiliates and in growth opportunities at existing Affiliates using a disciplined allocation framework.

AMG's business was built Affiliate by Affiliate throughout market cycles, and this deliberate approach over three decades has resulted in a diversified and resilient business. Today, AMG is not only diversified by asset class, strategy, geography and client, but also across roughly 40 partner-owned businesses run by successful entrepreneurs. Our Affiliates are industry-leading independent active managers with proven track records of delivering excellent risk-adjusted returns for clients throughout a cycle. These best-in-class specialist firms have a history of being nimble and innovative during periods of transition and that entrepreneurial spirit and ownership culture enable them to protect and grow client assets as well as introduce new products as market conditions evolve.

The combination of our Affiliates' entrepreneurial vision and our commitment to support their growth initiatives has resulted in the launch of more than 50 new products over the past three years, which today total approximately $30 billion in assets.

Finally, we see our industry as being in the midst of significant change. For AMG, given our partnership structure, diversification and significant capital position, we not only have the structural resiliency to navigate this environment but we also expect to outperform by capitalizing on opportunities to create substantial future growth. And many of our most successful investments have come after periods of industry transition and uncertainty.

We remain confident in our ability to shape our business as well as scale and compound our earnings, through the deployment of capital into our growth strategy while also returning significant excess capital to shareholders.

And with that, I'll turn it over to Tom to review the details of the quarter.

Thomas M. Wojcik - *Affiliated Managers Group, Inc. - CFO*

Thank you, Jay, and good morning, everyone. AMG delivered strong results in the first quarter. As the market environment continues to evolve, we are benefiting from the diversity of our business, differentiated investment performance, improving flow trends and new affiliate partnerships in secular growth areas. As Jay noted, clients are adapting to the changing investment landscape by taking a more active approach to their portfolios, and our affiliates are well positioned to meet growing demand for diversifying return streams.

Our recent incremental investment in Systematica highlights that value proposition, as macro and trend-following strategies are delivering for clients amid market volatility. And the recent announcement of Baring's strategic combination with EQT will add to our significant capacity to invest in future growth. Overall, with our strong capital position and unique ability to deploy that capital into new and existing Affiliates, AMG is well-positioned to execute on our growth strategy and simultaneously return significant excess capital to shareholders through repurchases.

Turning to our first quarter results. Adjusted EBITDA of $255 million grew 3% year-over-year, and Economic earnings per share of $4.65 grew 9% year-over-year. Net client cash inflows, excluding certain quantitative strategies, were $2.7 billion for the quarter. The improving trajectory of our flow trends evidences the shift in our business mix toward high-demand areas including liquid alternatives, private markets and ESG, and the resurgence in value performance creates further forward momentum.

Turning to performance across our business and excluding certain quantitative strategies. In alternatives, we reported strong results again with net inflows of $6 billion in the first quarter. The inflows reflect $4 billion of private markets flows at EIG, Pantheon, Comvest and Baring. Client interest in private market strategies remains robust, and our diversified, long-duration assets in this category are a source of stable and growing management fees as well as a performance fee opportunity that is building over the long term.

We are also seeing strong demand for liquid alternatives, where we generated $2 billion of inflows in the quarter as clients seek uncorrelated and differentiated return streams to add diversity to their portfolios. A number of our liquid alternative managers, including Systematica, Capula and Garda, are generating excellent investment performance and organic growth.

Overall, we see a growing opportunity for our Affiliates to attract flows and generate performance fees across our diverse set of absolute return, beta-sensitive, and private market strategies that builds on itself over time, as strong performance leads to inflows, which translate into higher asset levels and a greater opportunity to generate future earnings growth.

Moving to global equities. Net outflows were $3 billion. Sales activity continues to be strong, and we remain confident that the changing market environment and heightened asset dispersion present a favorable opportunity for the highest quality active managers, including our Affiliates, to deliver a differentiated value proposition to clients.

In U.S. equities, flows were relatively flat as redemptions in growth strategies offset inflows into ESG and value strategies. Gross sales in this category were very strong, and our long-term investment performance continues to be excellent, with more than 70% of assets outperforming on a 5-year basis. The significant recent outperformance of value has benefited many of our strategies, including at Yacktman and River Road, and we are continuing to see increased dialogue with clients looking to reposition their portfolios into more quality and value-oriented strategies.

In addition, we continue to see strong demand for sustainable and impact investing with Affiliate leaders in the space, such as Parnassus and Boston Common.

Finally, multi-asset and fixed income strategies were also roughly flat for the quarter. Net inflows at wealth managers, including Veritable and myCIO, were offset by outflows in fixed income, consistent with industry trends.

Turning to financials. For the first quarter, Adjusted EBITDA of $255 million grew 3% year-over-year driven by new investments and strong Affiliate investment performance, and partially offset by a decline in performance fees and mark-to-market gains on strategic investments to $25 million in the quarter. Economic earnings per share of $4.65 grew 9% year-over-year, further benefiting from share repurchase activity.

Now moving to specific modeling items. We expect second quarter Adjusted EBITDA to be approximately $215 million to $220 million, including a modest level of performance fees. This is based on current AUM levels reflecting our market blend, which was down 5% as of Friday, and also reflects the full impact of the first quarter drawdown in equity markets. As a reminder, the second and third quarters are typically seasonally lower performance fee quarters due to the timing of performance fee crystallizations.

Given the diversity of our product set and the strength we are seeing in particular across absolute return strategies, our full year performance fee opportunity remains strong. For the quarter, our share of interest expense was $29 million. Controlling interest depreciation was $2 million. Our share of reported amortization and impairments was $32 million. GAAP and cash tax rates were 26% and 18%, respectively. And intangible-related deferred taxes were $16 million. We expect each of these items to be at a similar level in the second quarter.

Other economic items were [negative] (added by company after the call) $4 million in the first quarter, which included the mark-to-market impact on GP and seed capital investments. In the second quarter, for modeling purposes, we expect other economic items, excluding any mark-to-market impact on GP and seed, to be $1 million.

Our adjusted weighted average share count for the first quarter was 40.9 million, and we expect our share count to be approximately 40 million for the second quarter.

Finally, turning to the balance sheet and capital allocation. We have had an active start to 2022, first, with our incremental investment in Systematica, followed by the announcement of the strategic combination of Baring and EQT. Our balance sheet is in an excellent position, and the proceeds expected from the Baring transaction will further enhance our ability to deploy capital towards strategic growth areas and deliver value to our shareholders.

At the current EQT stock price, AMG would receive gross proceeds of approximately $1 billion. As we noted at the time of the announcement, we expect approximately 40% of gross proceeds to go toward taxes, transaction expenses and debt repayment. The remaining 60% will be used first to invest for growth in both existing and new Affiliates. And the combination of the Baring proceeds and our significant cash flow generation enable us to not only fund substantial growth investments, but also to continue to return excess capital through share repurchases.

We expect the transaction to close in the fourth quarter, and we anticipate that the full allocation of proceeds post closing will add approximately 10% accretion on a per share basis over time.

We remain focused on long-term growth and we will continue to invest our capital in a disciplined manner, evaluating all investment decisions under a common framework, whether that be assessing a new investment, accelerating growth at an existing Affiliate, adding resources to enhance our strategic capabilities or repurchasing shares. In the first quarter, we repurchased $185 million of shares and are committed to returning excess capital to shareholders. We continue to target $400 million of full year share repurchases, subject to market conditions and new spend activity, and we plan to update that number based on the timing of the closing of the Baring transaction later in the year.

The resilience in our earnings this quarter reflects the diversity and strength of our Affiliates and the structural stability inherent in our unique partnership model. Looking ahead, we remain focused on executing our growth strategy and on evolving our business towards secular growth areas. And our opportunity to drive substantial earnings growth by investing in new and existing Affiliates and returning capital to shareholders through share repurchases positions us well to compound earnings at industry-leading levels and deliver significant shareholder value.

Now, we're happy to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Robert Lee with KBW.

Robert Andrew Lee - *Keefe, Bruyette, & Woods, Inc., Research Division - Associate Director Research*

Great. Hope everyone is doing well. You kind of touched on this in the prepared remarks, Jay, but maybe dig a little deeper. Given current environment, could you maybe add a little maybe meat on the bone if we want to think about how investor behavior is changing? Maybe are you starting to see RFP activity really start to accelerate as maybe more institutions start to think to redeploy the liquid active equities? And maybe also differentiate a little bit between what you're seeing institutionally versus maybe in the wealth management or retail channels?

Jay C. Horgen - *Affiliated Managers Group, Inc. - CEO, President & Director*

Sure. Thanks, Rob. Well, I would agree with your characterization that the market environment is changing. We see that clients are already reacting to this environment.

There are different layers here that I should point out. The first is we think that this environment is really good for active management. We think clients will increasingly take an active approach in managing their exposures, and we think active managers' ability to protect and grow client assets in these changing conditions is a clear advantage, and it's one that's unmatched by passive.

So when we think about our positioning, which we believe to be very good in this environment, there are really 3 things that I would point out to you. The first is the diversity of our Affiliates, and that includes, as Tom said in his prepared remarks, the significant exposure we'd have to absolute return and uncorrelated liquid alternative strategies. And we did see client activity as early as mid last year begin to shift to more absolute return liquid alternatives, and we have been talking about that for several quarters now. We see that to be an advantage of AMG and our Affiliates in terms of positioning.

We also see the comeback in value to be an advantage for industry-leading value managers at AMG. That's something that we're well known for.

And then lastly, as you know, we've invested heavily over the last couple of years in [private equity and illiquid strategies] (corrected by the company after the call). And so we have longer locked-up capital in private markets. That all supports our Affiliate positioning and why we feel good about this environment and delivering for clients.

Second, and I think everyone on the phone is aware of this, our ability to make new investments during times of transition and dislocation. Many of our most successful investments have come during these periods. We look to be opportunistic in this environment, in part because of the structural stability in our business model, our partnership structures and the strength of our balance sheet enables us to be nimble and also opportunistic in this environment.

So when we take a big step back, I do think the market environment, a shift to relative value and liquid alternatives is occurring, and we do see that client activity happening already. And as Tom said in his remarks, all of these asset classes that I just mentioned account for more than half of AMG. So when we think about that positioning, we're very excited about it.

And then in terms of new investments, pivoting to having a robust and diverse business, we can be front-footed in our new investment strategy; looking for opportunities in this environment, especially when others are more inwardly focused.

And the last thing, as I pointed out, was our balance sheet, and I might just have Tom pick up there and talk about the strength of our balance sheet and then we can come back and we can talk about client activity by institution versus wealth and others.

Thomas M. Wojcik - *Affiliated Managers Group, Inc. - CFO*

Sure. Thanks, Jay, and thanks for the question, Rob.

So just a little bit in terms of how well positioned AMG is in this environment. Given not only our strong balance sheet and capital position, which, as you know, will further be enhanced post the Baring deal closing, but also the unique nature of our business and the way that our earnings and cash flow characteristics tend to perform in this type of an environment.

Jay talked about this a bit already, but that resiliency really starts with the diversity of our Affiliate product set, and it includes a number of strategies with countercyclical qualities as well. And all of that translates into stability in terms of our top line revenue.

And given the performance that we're seeing, in particular, in some of our absolute return strategies, we're also really building on our opportunity to earn performance fees later in the year.

As you know, the majority of our EBITDA is under a revenue share structure. We have a very lean cost base at the AMG level, and most of that is variable in nature, so we also experience a lot less margin pressure in the face of a market drawdown than you might expect to see in a traditional asset manager P&L. And each of those attributes contributes to the consistency of our cash flow profile. We generate a lot of cash every quarter. We have access to even more liquidity, including the ability to draw our full $1.25 billion revolver without any impact on our covenants.

As you know, our balance sheet is in excellent shape. We have significant duration and flexibility. And once the Baring transaction closes, we'll have another $240 million of cash in addition to the EQT shares. And collectively, that's a lot of firepower that really enables us to be opportunistic when we see things that we like.

And then just to put a finer point on it, Rob. In choppy markets, we see a lot of questions that tend to go to asset managers from investors in terms of how they're going to perform. And if you just tick through those from an AMG perspective, you can see how different our business model is.

So first, how is this environment impacting your top line? Well, we talked about it, the diversity of our Affiliates and investment strategies means our top line is much more stable than a traditional manager.

Then what about fee pressure? What are we seeing there? Actually, with all the tailwinds and alternatives, the combination of great performance, performance fee generation and flows, we're really seeing a positive influence on our fee rate and also some significant performance fee opportunities down the road. On expenses and margin pressure, as you know, we're heavily weighted toward revenue shares. We run lean at the center, so there is much less margin impact for us.

And then debt and capital resources. We're long duration, we're flexible. We have a lot of cash. We're going to have a lot more in the near future. So when you put all of those things together, it really does highlight just how different our business is. I think that is why Jay is so excited about the opportunity to be front-footed in this environment.

Jay C. Horgen - *Affiliated Managers Group, Inc. - CEO, President & Director*

Yes. So the last thing, just in terms of your questions. The one major move that we have seen really is towards liquid alternatives, both institutional and wealth. And I do think that we're uniquely positioned at AMG relative to, say, our other public peers. This area has seen a resurgence in performance. Most of the relative value, trend following, and absolute return strategies are up significantly this year in terms of positive performance. That bodes well for future flows, and we're already seeing a pickup in client activity towards these strategies.

Operator

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

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

Jay, Tom, I hope you're both doing well. I was looking at how you structured the Parnassus transaction, and it looked like you paid roughly 60% of the purchase price upfront and then the rest would be deferred payments and contingent payments.

So as we model out free cash flow, I want to understand how large the deferred payments and contingent payments for deals already announced could be this year and next year, if you can provide us any help with that?

Jay C. Horgen - *Affiliated Managers Group, Inc. - CEO, President & Director*

Yes, sure. Tom, do you want to take that one?

Thomas M. Wojcik - *Affiliated Managers Group, Inc. - CFO*

Yes. So Craig, I think the weighting on the Parnassus number is probably a little bit less than what you walked through, but you're right in the sense that we did structure the transaction that way. And similarly, we tend to structure many of our transactions to ensure that our shareholders are well positioned for all outcomes, and we have excellent alignment between the Affiliate that we're making a partnership with and AMG and our shareholders.

In the context of our overall cash flow generation, both the cash flow that we generate from our business on a quarterly basis, the strong performance fees we're seeing, and the incremental cash that we're going to get from the Baring transaction, the piece that is out there in front of us is, frankly, relatively modest in the context of our overall ability to spend.

There's a page in our Investment deck that talks about $2 billion plus of liquidity. We've got another $1 billion on a gross basis coming in from [Baring] (corrected by company after the call). If you start thinking about a couple of hundred million dollars over the course of the next couple of years in deferred payments and contingent, you're in the range of what we would expect.

Importantly, contingent payments are going to be very well aligned in general with the performance of those underlying businesses. So the better those businesses do, the more we may owe in terms of contingent payments. Again, they tend to be modest, they tend to be structured, but we'll have right way risk on those, if you will.

On the deferred payment piece, it's really just a timing matter and it's really a way for us to continue to manage our overall profile. So I look at it as being a really important tool for us as we enter into these transactions in a way that structurally makes sense. But as we look down the pike from here, we don't see anything impairing our ability to put significant capital to work either in new investments or repurchases in terms of the quantum that is on the come, if you will, in deferred payments or contingent payments.

Operator

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

William Raymond Katz - *Citigroup Inc., Research Division - MD & Global Head of Diversified Financials Sector*

Okay. Just going to slip a two-part question in. One, just certainly appreciate the affiliate diversification and the resiliency of the business and what seems to be shifting allocation trends. I guess I'm just sort of struck by the pretty sharp sequential decline in EBITDA against a 5% market drop. So wondering if you could maybe unpack some of the delta from the $255 million this quarter down to $215 million for the second quarter?

And then stepping back, Jay or Tom, just sort of curious, are you seeing a step-up in conversation for new investments right now? Or is just the market action here just a bit more of putting things on hold for now, just given the uncertainty of everything?

Jay C. Horgen - *Affiliated Managers Group, Inc. - CEO, President & Director*

Yes. Thanks, Bill. Tom, I'll take the first one here on the step up in conversations, and then I'll turn it to you to talk about the modeling items for the quarter and the next quarter.

So Bill, thank you again for your question. On the new investment side, we have seen pretty strong activity in the M&A market now for the last 18 months, I would say. And I guess there often is a slowdown when you hit choppiness like we've seen. So far, and interestingly, I'm not exactly sure I can even explain it, we haven't really seen a slowdown in our pipeline. In fact, if you just look at new discussions at the front end of our pipeline, we may have even seen an uptick in this past period. So we do see the opportunity set to continue to be strong for us.

[As I mentioned, we are looking for opportunities in this environment] (corrected by the company after the call). We do think that a number of our competitors will be more inwardly focused as they focus on expenses, fees, and margins, all the things that Tom said that we have less sensitivity to. And so we're hopeful that in this period, with a continued active pipeline, that we're going to see opportunities for us to invest for the benefit of our shareholders.

We are uniquely positioned in the marketplace and increasingly, independent firms are seeking an engaged active partner. And with our resources on distribution and our strategic engagement, I do think that we are especially well positioned to help independent firms continue to meet their own objectives. So the rationale for choosing AMG has probably never been better and we see the pipeline being strong. So we would expect activity to come out of this environment.

Tom, I'll turn it to you to do the more guidance-oriented [question] (added by company after the call).

Thomas M. Wojcik - *Affiliated Managers Group, Inc. - CFO*

Sure. Bill, thanks for your question. We guided to EBITDA in the second quarter of $215 million to $220 million with modest performance fees. And if I walk you from where we were this quarter to where we are next quarter, hopefully it will give you the clarity that you're looking for.

This quarter, we reported adjusted EBITDA of $255 million. And we noted that, that included performance fees and mark-to-market gains of $25 million. So that gets you to an ex performance fee, ex gain number of about $230 million. So what we're really talking about is the delta between $230 million, and then that $215 million to $220 million range.

Just as a reminder, performance fees, in particular, in the second and third quarter tend to be seasonally lower. So you should assume that the $215 million to $220 million range has a very modest level of performance fees, call it $2 million to $3 million in there. And the vast majority of that change from the $230 million to that $215 million to $220 million range is really markets. And you should think about markets in two ways.

First, the full impact of the Q1 market performance, given the shape of the market in the first quarter. And then secondly, the Q2 mark where we told you that our blend is down about 5% as of Friday. Now obviously, last week was a very challenging week in the markets, and we tend to try and mark-to-market right up to the day before we announce earnings. So you're really seeing the latest impact of that downward market move and the impact that it's having on our EBITDA, assuming it's sort of straight line from here for the rest of the quarter.

I would step back though and make 3 points just at a higher level as you think about the full year and as you think about the earnings power of the business. We've talked a number of times already today, in both our prepared remarks and in the answers to questions, about the diversity of our business, the excellent performance we're seeing, and that will continue to drive strong earnings over the course of the year.

I've also talked a little bit about the structural advantages in our model and the things that keep our top line strong. The fact that we're seeing strong fee rate trends, the fact that we're seeing very strong, resilient trends with respect to margin and expenses given the nature of the model.

And then lastly, again, the performance fee opportunity. And I think this is, again, very unique to AMG. The exposure that we have to absolute return strategies relative to any other business in our industry is quite high. The performance in those businesses year-to-date has been very strong. So when you think about the full year opportunity there, it's very strong as well.

Jay C. Horgen - *Affiliated Managers Group, Inc. - CEO, President & Director*

I just wanted to add, and Tom said it very nicely there. But when you look at any quarter-to-quarter mark, we do bring it all the way to current [prices] (added by company after the call), and last week was a lower week in the market. But when you look more past next quarter, you look over the next couple of quarters, what you're seeing in our [business is really good performance] (corrected by the company after the call), especially in the absolute return strategies, which presumably will lead to better flows in those categories and maybe even strong flows in those categories.

And then most importantly, our capital position and our flexibility really just doesn't express itself in any one quarter. The capital strength that we have with the Baring transaction, with where we've been with our balance sheet and the continued cash flow from our business - when that expresses itself, we do believe it will lead to significant earnings growth.

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*

I was hoping you could zone in on your non-U.S. strategies for a second, given just a little more turbulence and volatility in the non-U.S. markets. I guess, one, maybe a reminder on the currency impact and kind of how we should think about the sort of potential mark-to-market risk there. And the trends that you highlighted with respect to rising appetite for maybe some of the traditional products in the U.S. Are you seeing any of that outside the U.S. as well?

Jay C. Horgen - *Affiliated Managers Group, Inc. - CEO, President & Director*

Yes. Thanks, Alex. Maybe we'll take it top down holistically, Tom, and just talk about flows but with a focus on the non-U.S. piece.

Thomas M. Wojcik - *Affiliated Managers Group, Inc. - CFO*

Sure. Maybe I'll start. And I'll just answer, Alex, one of your quick questions to begin with, which is obviously, with the strengthening that we've seen in the dollar, you should expect some modest headwinds in terms of FX. That is baked into our estimate for next quarter on a go-forward basis, so you're right to raise that. It's not a massive impact for us, but certainly, it does impact us given the global nature of our business.

So on flows overall, and then I'll come back to some of the global products. First, just a quick framework in terms of what really drives flows, particularly in an environment that is changing as much as Jay noted in his prepared remarks. First, you really need a market where particular strategies are well positioned to work. And given all the changes we're seeing in the environment, there are obviously certain types of strategies that are well positioned for this type of a market. Then you need those strategies to actually perform well in that environment. And we're absolutely seeing that across a number of our Affiliates.

And then finally, you need clients to recognize the opportunity and you need them to understand the role that these strategies are going to play in their portfolios, and that recognition is happening real time, and it's also starting to show up in our flows.

So those areas that are really well positioned for this type of changing environment, we've talked about them already: liquid alternatives, value, private markets. Those are a big part of our business, and as Jay referenced earlier, [they represent] (added by company after the call) more than half of our EBITDA. And collectively, those strategies delivered very strong flows this quarter, and we expect that trend to continue going forward. As I mentioned earlier, it's also been a positive for our fee rate, and we like that as well.

In addition, our ESG-dedicated strategies also had strong inflows in the quarter with more than $1.5 billion in, and we saw inflows in wealth management as well. So overall, a very sizable portion of our business is both inflowing today and also well positioned for the future.

In terms of your question around global products. Look, of course, the conflict that we're seeing overseas and the volatility we're seeing in China's markets, is pressuring both global and emerging markets in a variety of ways, and our Affiliates are not going to be immune to that completely in terms of our global equities book.

That said, our long-term investment performance remains very strong. We feel very good about the quality of our Affiliates, their respective reputations with investors over decades and market cycles in this category. These are businesses that are well known to put up strong performance over the course of time. And in some cases, to your question, Affiliates are really seeing clients reconsidering their allocations to global and emerging market strategies, and some are looking to take advantage of near-term dislocation to position their portfolios into that asset class. So we're certainly seeing some of those conversations.

Jay C. Horgen - *Affiliated Managers Group, Inc. - CEO, President & Director*

And one last thing I'll say here is just to remind everyone that we don't think about flows in any one particular quarter. Really, we're focused over the long term. And I think you can see on Page 8 of our IR deck, the rolling 12 months really gives you a picture of the positive momentum we're seeing in the category. And importantly, what you're seeing is a flow story that is improving both on the quant side as well as on the fundamental side, so we do see the activity of this marketplace changing for us to the positive.

Our flows are really just an output of a successful execution of our strategy, and that includes the new investment strategy and investments that we're making with our Affiliates in distribution and in seed capital. We see that working. We see us getting ahead of that, and we're in an environment now where we're getting the benefit of being ahead of that. So we're excited about the forward prospects, even though we understand we're in a difficult market environment.

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*

Great. Maybe if we can just dive into the accretion timeline and the different parts of the 10% accretion that you talked about, Tom, from the Systematica investment and the Baring private EQT transaction. The other 60% of that in terms of what you plan, I guess, if you have an early read on exactly on how much you plan to invest in internal growth initiatives and what types of things are you planning to do with that versus share repurchase activity? And if you could just again touch on your overall capacity for deals?

And just in terms of the -- and thinking about that deal pipeline post this transaction as well as any impact on the fundraising from the transaction in terms of the $4 billion that you did in fundraising this quarter, how that could be impacted longer term from the EQT transaction?

Jay C. Horgen - *Affiliated Managers Group, Inc. - CEO, President & Director*

Great, Brian. There's a couple of questions in there so why don't I start, and then Tom will help me and if we've missed any, we'll try to regroup.

So we did have two significant transactions in the quarter, so let me start there. The first was Systematica in early January, which really was a carryover from the end of last year. And that's where we accelerated our repurchase of the remaining equity interest from a third party, and that completed the transition to where Systematica wanted to be in terms of its business, and we're very excited about that transaction.

We've seen the momentum in that business over the last years. The business has almost doubled. I think it has doubled now for us in that period of time. And then, of course, our purchase this year was timely as the business continues to perform really nicely, delivering very, very strong performance this year. I think the business is up 15% this year alone.

So we would see the earnings from that. We saw some of it this quarter, and we'll continue to see it throughout the year. Obviously, one significant opportunity within Systematica with that really good performance is performance fees, and typically, most of those performance fees would express themselves in the fourth quarter. And as Tom mentioned, we're very constructive on our performance and performance fee opportunity.

The other significant transaction in the quarter was the EQT-Baring merger. And let me just start by saying we see that as a very good outcome for our shareholders. And while it may seem somewhat unique in the context of our history, it's fully in line with our strategy and model. As we've been aligned here with the partners of Baring over the last 6 years, really to help that business grow and thrive, they made the decision that partnering and a strategic merger was the right outcome for them. And because of our alignment, it resulted in significant proceeds to AMG shareholders. Now those proceeds will come later this year, and so we are being patient and thoughtful about our approach.

And so maybe it's a good time for me to turn it to Tom and just review how we're thinking about that, including the timing of it and how we're planning our capital around that.

Thomas M. Wojcik - *Affiliated Managers Group, Inc. - CFO*

Yes. Thanks, Jay. And Brian, thanks for your question.

Maybe I can go through some of the facts and some of the math to help with your question here. So AMG acquired its initial 15% interest in Baring in 2016 for $187 million. And when the transaction closes, which we anticipate will be in the fourth quarter subject to customary approvals, we're going to receive $240 million of cash and 28.7 million shares of EQT, and that equates to about $1 billion of total proceeds on a gross basis given where the stock is today. 75% of those shares are going to be freely tradable post close, 25% of the shares are going to be subject to a 6-month lockup agreement.

Brian, as you referenced in your question, we have noted that we plan to allocate about 40% of the gross proceeds to a combination of transaction expenses, debt paydown and also the taxes that we'll owe on the sizable realized gain when the transaction closes.

With the remaining 60%, I think about it as really being purely incremental to our existing capital base and cash flow generation, and we're going to run that through the same highly disciplined framework that all of our capital allocation decisions are subject to.

At the highest level, this is a significant enhancement to our already strong capital position. It's going to allow us to invest further in our growth initiatives, including new investments and existing Affiliates, and it's going to enable us to simultaneously return even more capital to shareholders via repurchases. And when we put that to work, as you noted in your question, we expect approximately 10% earnings per share accretion over time, and I'll go into that in a little bit more detail.

First of all, that number is Baring only. That doesn't incorporate any of the upside associated with the Systematica transaction. That's just associated with the capital being unlocked in the Baring transaction. And it's also net of the earnings that will go away once Baring is no longer part of our financial statements. And that's about $35 million that we're expecting in 2022.

So that net number is based on us paying our taxes, paying down our debt, making growth investments in our business and shares. Obviously, you can make a number of different assumptions in terms of the mix, and the mix is going to be a function of our opportunity set. But we have a number of different ways that we can put that capital to work over time that we think will be significantly accretive to shareholder value creation.

Also note, we're not going to rush. We're going to be very disciplined. We're going to take a patient approach both to monetizing the EQT stake and to allocating the capital. We have a strategy in place. We're focused on executing against that strategy with the goal being to accelerate both earnings and organic growth over time, and obviously, there are a number of variables that still need to play out [including] (added by company after the call) the timing of the transaction closing, the valuation of the shares, execution on the monetization and then the shape of that investment opportunity set in front of us. And our goal is to really maximize value creation in the context of all of those variables.

Operator

Our next question comes from the line of Dan Fannon with Jefferies.

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

I wanted to follow up on performance fees and some of the firms you mentioned like Winton and AQR for the first time, I think, in a while with regards to having good performance. Maybe if you could remind us where we sit versus high watermarks for some of these firms that have underperformed for longer periods of time? And how are you -- based on where things sit today knowing that performance can change very quickly, how would you characterize the 2022 performance fee opportunity vis-a-vis the other years? If there's a way -- a good comparison or think about the magnitude of what that -- and where that sits today?

Jay C. Horgen - *Affiliated Managers Group, Inc. - CEO, President & Director*

Yes. Thanks for your question, Dan. Let me start.

You're right that AQR and really all of our quantitative managers have been strong for the last [12-18 months, and] (corrected by the company after the call) in Systematica, really, for several years now. And in those businesses, in particular AQR, they've had a handful of strategies that have really performed very nicely. And I would characterize these as being their higher fee liquid alternative, absolute return-type strategies.

And so as their performance continues to improve, they are, in many cases, above high watermark in those products and their long-term performance fees are improving, both at AQR and Winton. And at Systematica, they've already produced significant performance fees in the prior period, and we're optimistic about what they can do in this period.

So maybe I'll turn to Tom to add a bit more to the performance category for what we can do this year. But I would just say that you're right, that for the first time in many years, we're seeing a resurgence in performance there, and that's leading to the potential for revenue coming from performance fees and flow improvement because of the performance.

Thomas M. Wojcik - *Affiliated Managers Group, Inc. - CFO*

Yes. Thanks, Jay. And Dan, thanks for the question.

So I'd start by saying performance fees are a really important part of our business. They've proven over time to be a durable component of our earnings and our cash flow. And we think that frankly, from a capitalizable earnings perspective, there's a core amount of performance fees that whether it's a great economic environment or a more challenging economic environment, you can really count on coming from AMG year in and year out. That number has averaged somewhere in the 7% to 12% range over the course of the last 5 years, and generally speaking, the asymmetry has tended to be to the upside.

So we think this is a really durable and important earnings stream and cash flow stream to us. And as we think about both our existing Affiliate base and the nature of our P&L, but also making investments in new Affiliates, that performance fee generation opportunity is really important to us and important to our shareholders.

We've talked about this in the past, but you can really break it into 3 buckets. Concentrated long only, that's going to be a little bit more challenging in the current environment. Illiquids, where we continue to build a carried interest bank that's going to be a longer-term opportunity for us. And then really, the focus of the day, the absolute return strategies. And it's certainly the quant strategy: Systematica, AQR, Winton, as you referenced, but also Capula and Garda, are relative value strategies. These are strategies that are built to perform across economic cycles and in different economic environments, and we've seen very, very strong performance thus far.

Now you noted this in your question, Dan, it is early. Obviously, there's still a lot of the year left, but we feel very strong about where we stand today in terms of performance fee generation. And I would certainly think about feeling like we're in the upper end of that range in terms of an opportunity for us, depending on how markets develop from here.

What's really powerful is the diversification of our performance fees. There are some strategies here that are really working at all times, and I think that's really important to the overall diversification and strength of our business and cash flow profile.

Jay C. Horgen - *Affiliated Managers Group, Inc. - CEO, President & Director*

Yes. I would just, again, reiterate, reminding everyone what performance fees mean for our business. It means that we've got really good performance. And especially in absolute return products, it really does feel like those are products that are meaningful for the environment that we're in. And so you could say it's a stabilizer in our business, but as Tom pointed out, we've always had relatively stable performance fees. They just come from different sources at different times.

Operator

Our final question this morning comes from the line of Robert Lee with KBW.

Robert Andrew Lee - *Keefe, Bruyette, & Woods, Inc., Research Division - Associate Director Research*

I'm wondering if you can maybe drill down a little bit into the kind of the margin protection you have built into structurally with your revenue share. I mean, I guess, I don't know if there's a way of formulating kind of -- or quantifying how we should think about that, maybe reminding us of kind of structurally what that looks like? And as a part of that, sometimes investors do question, hey, if revenues get tough and you have margin protection, does that leave enough cash and cash flow at the affiliates to properly incentivize, pay, invest and whatnot? So maybe if you could kind of address that and touch on that.

Jay C. Horgen - *Affiliated Managers Group, Inc. - CEO, President & Director*

Yes. So let me start, Rob, thanks for your question. Conceptually, a revenue share is really just a method for us to work with our Affiliates, and what does that really mean? It means our promise is to leave them alone, let them choose their own path, operate their business, and have full control of their day-to-day decisions. But then to strategically engage, help them grow, get behind their growth plan - we do that through our own distribution efforts as well as some strategic engagement initiatives that we have, including seed capital and other consultative engagement. So that's really our model. And to do so, we think that a revenue share is a tool to allow for all those things to occur.

It's not 100% of our business. I think it really depends on the situation, so we are open to structures that work for Affiliates. But in the main revenue share structure for a growing firm, that value inures to the benefit of the underlying partners.

And so what do I mean by that? If you think about it over time, businesses that grow, they grow scale and they develop growth in their EBITDA line faster than the revenue line, and that builds up substantial cushion in these businesses as they grow. And 100% of that margin expansion inures to the benefit of the partners, the bonus pools, et cetera, and that's really what's occurred at AMG.

So when you look across our Affiliates, the large majority, especially coming off the environment that we've just come off of, which has been, generally speaking, a higher asset level environment - we've had substantial cushion at our Affiliates and they enjoy the benefit of that. So I will say that the revenue shares that we have are operating well. I think we are mindful that if we are in environments where there's pressure, we obviously have to adapt and adjust. But we don't really see any pressure in our business today because of the built-up growth and cushion underlying those revenue shares. We're in really, really good shape.

And I don't know, Tom, if there's anything else that you want to add to that?

Thomas M. Wojcik - *Affiliated Managers Group, Inc. - CFO*

No, Jay. I think you covered it.

Jay C. Horgen - *Affiliated Managers Group, Inc. - CEO, President & Director*

Okay. Excellent. Well, thanks for your question, Rob. And I do think that structurally, it advantages us in this environment because, as Tom mentioned and really put it well, the flexibility of our model is really around capital. And so to the extent that the businesses that we partner with are operating effectively and growing and thriving, then what we really are focused on here is the disciplined allocation of our capital for the benefit of shareholders. And that flexibility lets us be opportunistic in this environment, both in terms of new investments as well as repurchases of our stock. So we do see that, that flexibility is an opportunity for AMG.

Operator

Thank you. Ladies and gentlemen, that concludes our question-and-answer session. I'll turn the floor back to Mr. Horgen for any final comments.

Jay C. Horgen - *Affiliated Managers Group, Inc. - CEO, President & Director*

Thank you all again for joining us this morning. AMG had a strong first quarter, and as discussed, our business is resilient to navigate this environment, and we expect to capitalize on opportunities that it presents. I hope everyone remains safe and healthy, and we look forward to speaking with you next quarter. Thank you.

Operator

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