REFINITIV STREETEVENTS

EDITED TRANSCRIPT

AMG.N - Q3 2020 Affiliated Managers Group Inc Earnings Call

EVENT DATE/TIME: OCTOBER 26, 2020 / 12:30PM GMT

OVERVIEW:

AMG reported 3Q20 economic net income of $152m or $3.27 per share.

CORPORATE PARTICIPANTS

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

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

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*

Christopher Charles Shutler *William Blair & Company L.L.C., Research Division - Research Analyst*

Craig William Siegenthaler *Crédit Suisse AG, Research Division - MD*

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

Michael Roger Carrier *BofA Merrill Lynch, Research Division - Director*

Patrick Davitt *Autonomous Research LLP - Partner, United States Asset Managers*

Robert Andrew Lee *Keefe, Bruyette, & Woods, Inc., Research Division - MD & Analyst*

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

PRESENTATION

Operator

Greetings, and welcome to the AMG Q3 2020 Earnings Conference Call. (Operator Instructions) As a reminder, this conference is being recorded. It's now my pleasure to turn the call over to Ms. Anjali Aggarwal, Head of Investor Relations for AMG. Ms. Aggarwal, please go ahead.

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

Good morning, and thank you for joining us today to discuss AMG's results for the third quarter of 2020. 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. - President & CEO*

Thanks, Anjali, and good morning, everyone. 2020 has been an extraordinary year in many ways. In addition to the significant impact it has had on our daily lives, the global health crisis has caused disruption and structural changes in the economy, including a dramatic draw-down and recovery in markets fueled by unprecedented monetary and fiscal actions that will have a lasting impact for decades. For asset managers, these events have brought about a fundamentally different environment. We have moved from a decade-long bull market with record high asset correlations to a period of increased market volatility, lower correlations and greater uncertainty. This new environment, characterized by significant asset dispersion, provides enhanced opportunity for the highest quality active managers to distinguish themselves and generate superior outcomes for their clients.

In addition to the changing backdrop for active management, a meaningful shift in the competitive landscape for investment management as a whole is occurring in real time. Asset managers are questioning the foundational elements of future success, and in some cases, are making dramatic changes to their forward strategy. The stark contrast in approaches evidences the strategic confusion in the marketplace, which will ultimately impact client behavior and outcomes.

Our industry has struggled to successfully execute these [different] (added by company after the call) strategies before: vertical integration, operational integration and cultural integration. In fact, AMG was founded 27 years ago during a similar period of competing and contrasting strategies. And we have been steadfast in our approach and successful in our strategic execution across cycles, including during those periods when other industry participants may have lost sight of the key attributes necessary to meet client goals and objectives. We believe that investing is about skill, not scale. It's about alignment with clients, not cost synergies. It is about entrepreneurialism and specialization, not corporate structure and product proliferation. Consolidation in a human-capital-intensive industry like ours, inevitably creates cultural cost and disenfranchises entrepreneurial talent, prompting clients to reevaluate their choices. And undoubtedly, this disruption will lead to significant opportunities for those who have a successful strategy and remain focused on client outcomes. We believe the highest-quality franchises in the industry will benefit from the disruption, including especially AMG and our independent partner-owned Affiliates. We expect to see a migration of both investment talent and client assets to independent managers that have the alignment and culture necessary to generate excess returns. Active management is best delivered through independent partner-owned firms, and we believe that AMG's unique approach to investing with and alongside these firms, through our proven partnership model, has stood the test of time and will continue to do so. AMG's unique business model enables us to grow through new partnerships with little or no integration risk, while preserving the aspects of our Affiliates' businesses that are most attractive to clients: independent firms' singular cultures and investment autonomy.

Turning to our results for the quarter. AMG reported Economic earnings per share of $3.27 and Adjusted EBITDA of $181 million. We are pleased with our results and that our business continues to perform well through the COVID period as we generated 12% Adjusted EBITDA growth versus the prior quarter, reflecting the diversity and stability of our model, the quality of our Affiliates and our exposure to areas of secular growth. Client outflows continue to be driven almost entirely by certain quantitative strategies, which contribute very little to our run-rate EBITDA. Excluding quantitative strategies, flows were broadly stable with ongoing growth in private markets and traditional and specialty fixed income, as well as in differentiated active equities and alternatives, where we have seen outstanding performance. As the market has recovered in recent months, we have increased our focus on investing for growth and are executing on our opportunity set across both existing and prospective Affiliates. We continue to invest in our Affiliates through AMG's distribution capabilities, our seed capital program, opportunistic team lift-outs and the ongoing development of long-term succession plans to align the next-generation of partners with future growth. We also continue to build strategic partnerships that leverage the collective strength of AMG's relationships on behalf of our Affiliates. Against the backdrop of the pandemic, our global distribution platform has been even more valuable to our existing Affiliates. At a time when most boutiques have been unable to fully engage outside their home markets, our Affiliates have leveraged AMG's local sales teams to maintain close connectivity with clients and prospects.

Turning to new investments. Given the strength of our existing proprietary relationships, our dialogues with prospective Affiliates have been active throughout the COVID period, and we are seeing increasing levels of engagement. Our prospecting efforts are focused on partnering with outstanding independent boutiques in areas of strong secular growth and client demand, including private markets, fixed income alternatives, global equities, ESG and multi-asset solutions. AMG's differentiated approach and our three-decade-long track record of supportive partnership strongly resonates with the highest quality independent firms and their clients, particularly in light of a shift in the competitive landscape. Today, AMG's offering to existing and prospective Affiliates is highly flexible and enables us to meet the evolving objectives of independent firms as they grow their businesses over time. In addition to succession planning as a core element of our value proposition, AMG offers primary capital to Affiliates to invest in their growth initiatives as well as access to proven in-market distribution capabilities to extend our Affiliates' client reach and grow assets, all of which are increasingly [significant aspects of our dialogue with] (corrected by the company after the call) new investment prospects.

Looking ahead, we are highly confident in our growth strategy and anticipate opportunities arising from ongoing economic uncertainty and structural changes in our industry. We believe that in this environment, active management, particularly when executed by independent partner-owned firms is more important than ever, and AMG's approach to investing in these firms is increasingly differentiated. Our ability to execute on the opportunities before us is enhanced by our financial flexibility and further enabled by our strong corporate culture, with its hallmarks of entrepreneurialism and a partnership orientation.

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. As we enter the fourth quarter of 2020, the resilience of our Affiliates and the strength of our partnership model is clearly visible in both the rebound in our quarterly earnings and our expectations for future growth. Over the past three quarters, we took advantage of market conditions to continue to enhance our balance sheet, extend duration and improve liquidity. Our strong capital position and consistent cash flow generation enable AMG to create long-term shareholder value by executing on our growth strategy, both at existing Affiliates and through new investments as well as to return significant excess capital to shareholders.

Turning to the quarter and beginning with flows. While we reported net client cash outflows of $(14) billion in the third quarter, similar to prior quarters, more than 90% of those outflows were driven by certain quantitative strategies that contribute less than 5% of EBITDA on a run-rate basis. I will first provide a breakdown of the impact of challenged quantitative strategies and then go through our customary flow discussion by asset class, excluding quant, to review the areas that continue to generate the vast majority of our earnings. Outflows in these quantitative strategies totaled $(12.9) billion, including $(6.3) billion within liquid alternatives, $(2.3) billion in global equities and $(4.3) billion in U.S. equities, as performance headwinds persist. Excluding these strategies, AMG saw modest outflows, benefiting from strong demand for private markets and specialty fixed income strategies, offset by outflows in active equities.

Turning to flows by asset class and excluding certain quantitative strategies. In alternatives, we reported net inflows of $2.8 billion, driven by continued strong demand trends at our private markets Affiliates. The fundraising success we've seen at Pantheon, Baring, EIG and Comvest has resulted in significant dry powder for deployment across numerous strategies and into attractive return opportunities in today's environment. Looking forward, our diverse group of private markets Affiliates remains well positioned to benefit from strong client demand and secular growth trends, and we anticipate continued strong fundraising in these businesses going forward. We also saw positive flows in our liquid alternatives category this quarter, driven by client demand and corresponding inflows in relative value fixed income strategies as a result of their strong near- and long-term track records and record low yields. And we are seeing client interest in thematic and sustainable investments as well as volatility-focused strategies, and we continue to look to add new products and new Affiliates in these growing and attractive market segments.

Moving to fundamental equities. We reported net outflows of $(3.7) billion in global equities and $(1.1) billion in U.S. equities, primarily driven by client rebalancing, and current demand headwinds in value-oriented strategies. In areas where we see a convergence between client demand for active as well as top-quartile performance, we are seeing inflows, including at Veritas, Montrusco and GW&K in Global and Asia focused strategies. Our investment performance across our fundamental equity strategies continues to be very strong with approximately 80% of AUM outperforming in benchmarks on a 5-year basis. We are seeing record levels of dispersion between growth and value indices today. Historically, mean reversion has followed periods of extreme dislocation, and if we see a similar pattern going forward, we are well positioned for future growth, particularly given that more than half of our AUM in value strategies across managers such as Yacktman, Tweedy, Browne, and River Road, are generating top quartile performance. Finally, in multi-asset and fixed income, we generated nearly $1 billion of net inflows in the quarter, driven by continued positive momentum in fixed income products at GW&K and Artemis. This area of our business continues to deliver steady recurring growth and remains well positioned for the future.

Turning to financials. For the third quarter, adjusted EBITDA of $181 million, which included $4 million of performance fees, declined 12% year-over-year, primarily driven by flows and mix shift. EBITDA benefited from lower expenses and incremental income from Affiliate equity repurchases. Relative to the second quarter, Adjusted EBITDA grew 12%, illustrating the disconnect between the underlying earnings power of the business and the limited earnings impact of quant flows. Economic net income of $152 million benefited from one-time tax items of approximately $16 million, primarily associated with prior strategic repositioning events, which will add to our cash position. Finally, economic earnings per share of $3.27 reflect the additional impact of share repurchase activity.

Now moving to specific modeling items. We expect Adjusted EBITDA in the fourth quarter to be in the range of $200 million to $230 million based on current AUM levels, reflecting our market blend, which was up 2% as of Friday, and a performance fee range of $20 million to $50 million. Our share of interest expense was $24 million for the third quarter, and we expect fourth quarter interest expense to be approximately $27 million as a result of our hybrid debt issuance in September. Controlling interest depreciation was $3 million in the third quarter, and we expect it to remain at similar levels for the fourth quarter. Our share of reported amortization and impairments was $59 million for the third quarter. In the fourth quarter, we expect this line item to be approximately $50 million. Our effective GAAP and cash tax rates were 31% and 5%, respectively, with our cash tax rate being lower in the third quarter, primarily as a result of tax benefits related to prior strategic repositioning initiatives. For modeling purposes, we expect our GAAP and cash tax rates to be approximately 25% and 21%, respectively, for the fourth quarter. Intangible-related deferred taxes were impacted by strategic repositioning and were $27 million in the third quarter, and we expect intangible-related deferred taxes to be approximately $5 million in the fourth quarter. Other economic items were [$(5) million] (corrected by company after the call) and included the mark-to-market impact on GP and seed capital investments. In the fourth quarter, for modeling purposes, we expect other economic items, excluding any mark-to-market impact, to be $1 million. Our adjusted weighted average share count for the third quarter was $46.5 million, and we expect share count to be approximately $45.4 million for the fourth quarter.

Finally, turning to the balance sheet and capital allocation. Over the past several months, we have continued to position the company for growth, taking advantage of the historically attractive financing environment, to enhance our capital position by building additional liquidity and flexibility and extending the duration of debt. Following our $350 million dollar 10-year institutional bond offering earlier this year, during the third quarter, we issued $275 million of 40-year junior retail hybrid securities at a 4.75% coupon rate with a 5-year call option at par. Our strong capital position, significant free cash flow and financial flexibility create a meaningful advantage as we execute on our forward opportunity set, while also returning excess cash to shareholders. During the quarter, we repurchased approximately $85 million of shares and expect to repurchase a minimum of $100 million in the fourth quarter, subject to forward prospects for new investments and market conditions.

We remain highly selective and disciplined in our approach to deploying capital, evaluating all investment decisions under a common framework, whether that be assessing a new investment prospect, accelerating growth at an existing Affiliate, adding resources to support our centralized services, or repurchasing shares. We remain focused on capitalizing on our core differentiators and competitive advantages as we execute against our strategy to drive long-term earnings growth and shareholder value creation.

Now we're happy to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question today is coming from Alex Blostein from Goldman Sachs.

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

Great. So Tom, maybe the first one just around the buyback dynamic. Obviously, we saw you guys increase a little bit of repurchase in the third quarter and the guidance for Q4 of $100 million feels a little higher than, I think, what we're looking for. Maybe talk a little bit about the rationale for a pickup in share repurchases and how you guys are thinking about this maybe into '21.

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

Sure. Thanks, Alex. And appreciate the question. Why don't I talk about capital allocation overall, and I'll incorporate your question as well. So as Jay and I both noted in our prepared remarks, we view capital as an important core strategic asset for AMG. And today, as we look at the landscape and the opportunities in front of us, we're very clearly looking to be front footed in terms of allocating capital toward growth opportunities, particularly toward new investments and investing in the growth of our Affiliates. As I mentioned, we're clearly going to remain disciplined, and all of our capital decisions are running through a common framework to ensure that we're earning an appropriate risk-adjusted return for our shareholders and making great long-term decisions, and that will include returning capital through repurchases.

As you've seen over the last couple of quarters, we've been very active in the financing markets, which further strengthened our capital and balance sheet position, extended duration, enhanced flexibility - all at very attractive pricing. And in terms of how we've been allocating our capital this year, we have put a significant amount into growth, including our partnership with Comvest earlier in the year, forming a strategic relationship with iCapital, putting meaningful capital to work at our Affiliates, both in terms of equity purchases as well as in growth investments. And I think you're really seeing the impact of some of those investments in our results with strong fundraising momentum at Comvest, and also meaningful earnings contribution from our incremental Affiliate investments. At the same time, we've returned $220 million of capital thus far through the third quarter via both repurchases and dividends. And incorporating our guidance for the fourth quarter gets you north of $300 million in terms of capital return for the full year.

I'd also point out, based on that guidance level, we should take our share count down by about 8% this year and more than 20% over the last 3 years. So the uptick in the buyback relative to where we were earlier in the year, I think you really heard this in Jay's [prepared] (corrected by company after the call) comments, was the fact that we spent a lot of time thinking about the strength of the business, how we want the business positioned in the context of COVID and in the context of our growth plan going forward. Things have really recovered. The business has been performing well. We feel very comfortable with our balance sheet and our cash position. And therefore, we felt comfortable returning some excess cash this quarter as well as guiding toward a slightly higher number for the fourth quarter.

Operator

Our next question today is coming from Craig Siegenthaler from Crédit Suisse.

Craig William Siegenthaler - *Crédit Suisse AG, Research Division - MD*

Given the lower profit contribution from your largest AUM Affiliate, which is structured in a profit share, not a revenue share. I wanted to see how they're progressing, reducing their cost base, which could help improve your EBITDA contribution to AMG going forward?

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

Yes. Thanks, Craig. As you know, we don't talk specifically about Affiliate-level actions, but I will note a couple of things. One, you're right, they are contributing a relatively small amount to our EBITDA today. So I think the benefit is that the asymmetry for upside on earnings and flows is there for AQR. We also feel very confident about their business prospects, but most importantly, the partners at AQR: Cliff, John, David and the rest of the senior partners are focused and fully aligned as majority holders of that business. And as you noted, we are a minority holder of that business. Given that alignment, we feel really good about the long-term prospects for the business. And as I mentioned, the asymmetry is in our favor now. The business is still highly profitable. Several segments are growing, lots of good momentum in fixed income, the tax-managed business and ESG capabilities at AQR. So really, in short, they've built a great, excellent, diversified business, and we continue to be optimistic about their long-term prospects.

Operator

Our next question today is coming from Bill Katz from Citigroup.

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

When you look at the institutional pipeline, could you speak to how that might be changing over the last 3 or 6 months ex the quant impact?

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

Yes. Thanks, Bill. Tom, do you want to take the first shot at that? I'll follow-up.

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

So Bill, I hope we heard your whole question there, but your question about the institutional pipeline and where it's standing today. Maybe just thinking about client trends at a high level overall, first, I'd say, in the immediate term, we're still seeing a lot of clients readjust their portfolios in the wake of COVID volatility. Existing relationships continue to pay dividends, forming new relationships is still a little bit more difficult. But the fact that we do have our global distribution folks on the ground in markets, has been a big advantage for us there. You are seeing a variety of rebalancing activity take place in the markets, and we're seeing both sides of that in different parts of our business.

Looking forward to the fourth quarter, we are continuing to focus on rebalancing and, just to make a quick retail point, we're also closely watching how clients engage with respect to the election and the longer-term outlook for taxes. I guess, secondly, there are 2 big trends we're watching, just in terms of active management. The first being dispersion between growth and value. And certainly, we've seen the impact of that value drag over the last couple of years, but also the spread between the best- and worst-performing managers. And I think really, when we think about our client conversations, each of these dynamics really speak to the value of active management. And as we start to see more and more dispersion in markets, investment scale, again, is really coming to the forefront. So we do believe strongly that these factors are setting up well to benefit independent boutiques that are fully aligned with client interests.

And as I said in my prepared remarks, in addition to that, we have very strong near- and long-term performance track records, particularly in fundamental equities and liquid alternatives. And I'll just give you a little bit of color there because I think that's a lot of what our institutional clients are seeing today. First, on the global equity side, more than 80% of our fundamental equity strategies overall are outperforming on a 5-year basis, including really strong long-term performance at businesses like Harding Loevner, Genesis, Veritas, Yacktman and River Road. And in the U.S., in particular, if you look at the trend over the course of the past several quarters, you've seen significant improvement on both the 3- and 5-year basis versus where we were coming into the year. So when you combine what we're seeing in terms of client conversations and the setup for active with our overall performance, in addition to the strong demand we've already been seeing in private markets, specialty fixed income and thematic strategies, we do feel like we're very well positioned to meet the needs of our clients.

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

I'll just add, I think Tom covered that very well. We see a time here, a new environment where asset dispersion and increased volatility is the environment where active is necessary in client portfolios. And we're seeing that dialogue pick up in our own client conversations. We just believe that investors can't afford to take a passive approach to volatility in this environment. And given returns for fixed income at near zero, they're going to need to look towards active for that performance in their portfolio. And then lastly, as Tom said, we believe active is best delivered through independent partner-owned firms. And as you know, that is our positioning. We are the solutions provider for independent partner-owned firms.

Operator

Our next question today is coming from Dan Fannon from Jefferies.

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

My question is on the new investment potential outlook. And obviously, the industry is going through a wave of consolidation that -- to your point around scale and things that you're not necessarily focused on, but does that trickle down do you think to smaller firms that are looking to find partners to help with areas like you can do in terms of centralized distribution and other things. So just curious if we can think about parallels between broader industry consolidation and the new investment outlook that you guys have and how we should think about potential upticks in that activity?

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

Yes. Thanks, Dan. There's a lot to your question, and I'm going to see if I can take the entire question and address it both from a consolidation perspective as well as what does it mean and how does it benefit AMG. I did discuss this a fair amount in my prepared remarks, but I'll make a few additional comments on consolidation. Maybe first, just to state flatly, AMG was the first firm to successfully pioneer a sustainable model for investing in independent partner-owned boutiques nearly three decades ago. And since then, as you know since you've been with us for most of that time, we've seen many M&A cycles and competing and contrasting strategies in our industry. But we have not deviated from our approach. We are also seeing these transactions happening around us that are so-called consolidation transactions or vertical-integration transactions. But we think that any transaction should be about enhancing investment performance and improving client outcomes. And it's hard to see, in our minds, how cost-driven consolidation does that. Maybe stating another, inherent view that we have, which is we believe independent boutiques have an advantage over large financial institutions and delivering superior outcomes to clients.

And maybe just stating what I think most of you already know, AMG's first principle has this whole time been, first, do no harm. And we don't want to do harm because we don't want to destroy what makes [these firms] (corrected by the company after the call) special for clients, these being independent partner-owned firms. And then we structure our arrangements with them to maintain alignment, preserve culture and to extend duration. And then lastly, we do enhance their growth prospects through our centralized services, which have become even more valuable in this COVID period with in-market distribution for boutique Affiliates. That's why our Affiliates choose AMG. That's why we think they'll continue to choose AMG on the new investment side and that's why clients prefer our model over consolidation.

And then taking a turn here to the new investment growth opportunity ahead of us. We have seen conversations come back from the early stages of the pandemic. I would say that we have made progress in our pipeline, and we are seeing conversations move forward as proprietary relationships that we've had for years, have engaged with us. It's a very exciting thing. And we do think our competitive position has enhanced for several reasons. One, we've had this consistent approach over time. We do have centralized resources that are additive to our Affiliates, and they have become an increasing attribute in the conversations for new investments. We are seeing much less competition. As you know, a number of our competitors have actually left the market, some are questioning foundational elements of their forward strategies, and fewer competitors have replaced them. And this gives us an opportunity and better positions us to be a partner for those independent firms. And we can also structure those partnerships with return characteristics that are more favorable to our shareholders and gives us more flexibility to structure for favorable outcomes.

So we're excited about this time. Obviously, we have to be excellent in execution, but we do think the opportunity is in front of us. And as you remember, on the heels of the GFC, AMG had one of its most productive new investment periods in its history. So I do think we've entered this new market environment. And while it'll have different elements to it, we believe that our steadfast approach to investing in partner-owned Affiliates [in addition to having] (added by company after the call) less competition around us, [makes us] (corrected by the company after the call) well positioned to execute on our new investment strategy.

Operator

Our next question today is coming from Robert Lee from KBW.

Robert Andrew Lee - *Keefe, Bruyette, & Woods, Inc., Research Division - MD & Analyst*

Just curious, maybe specifically for Jay, you've been talking about ESG a little bit and how you can work with your Affiliates. I mean obviously, you have the investment in Inclusive Capital, but I think that's kind of becoming table stakes. Is there a way that you can help bring some expensive initiatives to your Affiliates to help them kind of invest in that or scale it? Or do they pretty much just have to take that out of their revenue shares as part of their ongoing spending?

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

Yes. It's a good question. It's very topical, and I do agree with you. It's one of the fastest areas of growth in active management. We do believe that client demand for new and more inclusive ways of allocating capital is intensifying, both outside of the U.S. and now in the U.S. We are focused on this segment both for our existing Affiliates and in making new investments. And we view that sustainable investing will ultimately be best done by active management, and that's done by boutiques. We see sort of 3 levels here, and I'll maybe walk through those 3 levels: what we're doing as a company, what we're doing with our Affiliates and then what they're doing through their investing activity. I'll first just start with what they're doing through their investment activity.

80% of AMG's AUM is managed by Affiliates that consider ESG in their investment process and 16 of our Affiliates are UN PRI signatories. 20% of our Affiliates offer dedicated ESG strategies. And several of them are really well-known for their responsible investing [capabilities] (added by company after the call). First, Inclusive Capital run by Jeff Ubben and his partners that spun out of ValueAct in the succession planning transactions; that business is our newest. One of our long-standing Affiliates, Pantheon was one of the first signatories of the UN PRI 12 years ago and has won numerous awards for [responsible] (corrected by the company after the call) investing. It has a comprehensive ESG policy across all of its investment activities, and that's in the illiquid space. Artemis just hired a dedicated global sustainable equity team in a lift out, and will launch new strategies in 2021. EIG, a few years ago, created a renewable energy infrastructure fund and is actively growing that. And then in addition, many of our other Affiliates, including Harding Loevner, Veritas, Genesis, Montrusco, and GW&K, have all integrated sustainability into their investment processes.

So yes, I think that proves that active management is very much moving in this direction. [And we at AMG already have a substantial amount of capital allocated to responsible investing] (corrected by the company after the call).

We're also helping our Affiliates in a number of ways. We're giving them seed capital to support [new ESG products], (corrected by the company after the call) and we're also supporting the team lift outs, including the one I just mentioned at Artemis. On the new investment side, we're looking for ESG managers. And our pipeline does include a number of ESG-related businesses. And then lastly, on our centralized capabilities at the center, we're enhancing strategy and product development through sharing perspectives across our entire Affiliate group, including direct feedback from our global distribution team and the broader industry relationships that we have. And we're facilitating these conversations and entire Affiliate-led conversations as a group. And then lastly, just touching on AMG corporate. We've always been committed to best [corporate governance] (added by company after the call) practices at AMG and attracting and retaining a diverse base of truly talented human capital. We have stepped up our focus here on minimizing our environmental footprint. We've acted as strong corporate citizens in our local communities through philanthropy and service. All of that can be found on our website, but we are very focused at all levels at AMG on ways for new and more inclusive capital.

Operator

Our next question today is coming from Brian Bedell from Deutsche Bank.

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

Just to talk a little bit on the distribution side and the new sales side. A little bit lighter client cash inflows in the third quarter than the second quarter, but I know you mentioned the performance has improved. So maybe if you can give us a flavor of how that sales traction might improve into fourth quarter? I know we do have negative seasonality in the fourth quarter. So maybe if you could just confirm it. And then as we move into '21, to what extent do you think you can improve the new sales based on both your distribution initiatives and better performance? And maybe how ESG products can contribute to that? I know you mentioned the Artemis team and Inclusive Capital. And how that could contribute to that inflow dynamic?

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

Yes. Thanks, Brian. I'm going to let Tom start with that, and I'll see if I can follow up at the end.

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

Great. Thanks, Jay. And thanks, Brian. Let me start just with the question you asked upfront on gross flows in terms of what we've seen in the quarter. I think you guys have to look at gross flows from a couple of angles. First, tactically, most of the delta versus what we would expect to see in terms of gross flows is really on the quant side as we are not seeing a lot in the way of gross sales there at this point.

Second, I think we're still in this period of time where there's a little bit of third quarter seasonality as you get into the summer, but also still some COVID impact that's impacting activity levels. And while that's recovering certainly from an overall market perspective, things aren't totally back to normal. But I think most importantly, when we think about all of your questions, whether it's AMG's distribution, the distribution that exists at our Affiliate partners, and the overall dialogue that we're experiencing with clients, all of our commentary about the market for active improving is really the way we're thinking about the forward opportunity set.

Over the past decade, as risk asset markets have moved steadily up and to the right, it's been a more difficult environment for active management. And I think we're really seeing that setup for the future change, and Jay has touched on it in detail, both in his prepared remarks and here in the Q&A. But that dramatic change in dispersion of returns and alpha generation is much more front and center on client radars, which we do think is creating a great opportunity.

And just briefly to touch on AMG's distribution, Jay mentioned this in the context of new investments. And I think we've talked about it in the context of investing in our Affiliates more broadly. We do view that as increasingly being a larger and larger competitive advantage for us both in terms of an environment like the COVID environment, where it's very difficult for Affiliates to get out of their home jurisdictions and actually be out in the field; the value of having these existing relationships and having people in markets has certainly been incredibly important to us. And as we're having conversations with new investment prospects, whether it's our presence in the domestic wealth market or our presence in international and now domestic institutional markets as well, I do think both existing Affiliates as well as new prospects continue to view that as an extension of their resources and a real way that AMG can deliver scale in a nuanced and differentiated way.

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

Yes. I wanted to pick up on a few themes here. The first is the one that Tom mentioned and I mentioned in my prepared remarks. We think that active management in this period is really important to [client] (added by company after the call) portfolios, both institutional and retail. And active has been a hard sale in the last half decade. And we think that, that's changed. It changed earlier this year, but it's playing out as we speak and over the next months and years.

The second theme is our illiquid managers continue to grow and raise assets. We've had more of a continuous fundraising effort with bespoke funds and with separate accounts, but we are coming into flagship raises in 2021. We have a lot of momentum and the illiquid managers -- just reminding you, those managers being Pantheon, EIG, Baring Asia and Comvest. Comvest being our newest Affiliate and taking advantage of our distribution, which we've now got a lot of momentum in their current fund, but also in future funds as we've now been able to be out with clients with Comvest, and we're very, very excited about that.

On the distribution front, after a period of time in 2019 of repositioning in global distribution, we are now front footed. We're adding resources, especially around the illiquid fundraising, and we are focused on retail fundraising through our capital partnership and resources at AMG Funds. So I do think that within active, illiquid still has very significant fundraising potential as we look forward. But more broadly, those managers, fundamental equities and alternative managers who have very good performance are gaining flows, and we think that allocations will continue to come their way in this low rate, highly volatile environment.

Operator

Our next question today is coming from Mike Carrier from Bank of America.

Michael Roger Carrier - *BofA Merrill Lynch, Research Division - Director*

Just on the M&A front, given some more activity in the space, is that putting more inflation on deal prices? Or has there been more differentiation on the types of deals? And are you not seeing as much change in, say, the smaller boutiques that you tend to look for because there's always been demand among those types of managers?

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

Yes. Thanks, Michael. I touched on it briefly in my prior answer, but I'll be more specific. I do think for independent partner-owned firms, especially midsized firms, we're actually seeing fewer competitors. A number of the multi-boutiques have left the market and some of the other traditional peers and other public companies have been distracted and are not focused on new investments. There is a spectrum within the different asset classes. I would say illiquids is still relatively competitive, but every other category is much less competitive. And as I mentioned, that gives us an opportunity to partner with structures and return characteristics more favorable to our shareholders. And it gives us more flexibility to structure around more than a few outcomes that are beneficial to us. So we do see this as meaningfully favorable to us, especially in parts of the market like liquid alternatives and [fundamental equities] (corrected by the company after the call), especially global equity managers where we are seeing dialogue being more proprietary than it has been in the past, in part because we just think there are very few alternatives to an AMG-proven partnership model.

Operator

Our next question today is coming from Patrick Davitt from Autonomous Research.

Patrick Davitt - *Autonomous Research LLP - Partner, United States Asset Managers*

So alternatives and private credit, it seems, in particular, appear to be a big focus for regulators now. And I imagine that would only increase with the Democratic administration. So through that lens, does it change how you think about that as a target vertical? And on the other side of the coin, is that concern starting to factor into your new Affiliate conversations as something that could accelerate founders wanting to pull the trigger?

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

Thanks, Patrick. I'm going to ask Tom to add here. It's a good question. I think we do see the election and potentially changes, but uncertainty at this point is impacting both transaction volume and the types of transactions. You highlight two in particular. I think we've always viewed ourselves to be a broadly diversified investor in independent partner-owned firms. Our goal is not to have an outsized concentration in any one segment. As it relates to private credit and alternatives, in particular, private credit, we have a relatively small position in it today. But we don't see that as being at high risk. I think we obviously might see regulatory changes in markets, and we have and we will continue to evolve to meet those regulatory demands. But [with respect to] (added by company after the call) the highest-quality managers with the best people and the best talent, it's more of an opportunity than it is a challenge when there has to be an evolution and a pivot.

So we see change as being something that independent firms, because of their entrepreneurial spirit and because of their alignment, are facile and able to execute during those periods. So we're very comfortable. We've seen changes before, and I think that bodes well for our business model.

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

Maybe I'd just add one point, Jay, which is if you think about what sparked a lot of the growth in private credit strategies over the course of the last decade, it was a pretty dramatic regulatory shift in terms of the way regulators thought about banks and origination off of bank balance sheets. It doesn't feel like there's a big macro change like that out ahead of us. Building on what Jay said, I think incremental regulation, whether it's in private credit or any of the investment businesses that our Affiliates operate in, I think we probably have the ability to be more agile in the face of those changes than many larger, more integrated firms that are much more entrenched. As part of our new investment process and due diligence processes, we're very focused on what the regulatory environment looks like today and what it can look like in the future. But I think, generally speaking, our businesses and the types of businesses that we invest in, and the quality of those businesses, are reasonably well positioned to evolve in the face of regulatory change.

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

I do think the election itself is an event that will set us on a path. And I do think that coming out of that, there is opportunity for us within our pipeline and within the context of the market environment that we're operating in for opportunities to present themselves that may or may not have come up in a prior period. And I know that wasn't directly to your question, but we are looking at the election, the changes that come from an election in the future periods as being a positive for our new investment pipeline and growth opportunities for us.

Operator

Our next question today is coming from Chris Shutler from William Blair.

Christopher Charles Shutler - *William Blair & Company L.L.C., Research Division - Research Analyst*

I wanted to come back to the increase in the share repurchase in Q4. I know AUM is definitely up. But it does run contrary a bit to the positive new investment pipeline commentary. So maybe if you could just flesh that out. And then on the new investment pipeline, does the prospect of higher capital gains taxes impact your discussions at all?

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

Tom, why don't you take the first part of that question? And I'll take the macro part.

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

Sure. And thanks for your question, Chris. So I think we try to look not just at any individual quarter, but across time in terms of thinking about the amount of capital that we have available, the strength of our balance sheet and the position that we're in, what we're able to do in terms of growth investments, and then ultimately, what excess capital we have to return to shareholders.

So if you go back a bit earlier in the year, we came out of the box strong with the Comvest investment as well as healthy share repurchase levels, this was really in the first half of the first quarter before COVID hit. And we talked a lot on our second quarter call about just being thoughtful, conservative and prudent in the face of tremendous volatility. Obviously, we repurposed our dividend in favor of share repurchases. We took advantage of a very attractive financing market to extend duration and enhance the quality of our balance sheet. And we've seen significant recovery in our business at the AUM level, but also in terms of strength and underlying EBITDA and cash flow generation. And I think the combination of those things just makes us feel more comfortable that we can return a bit more excess capital. You may have heard in my prepared remarks, we have had some positive tax outcomes from some of the strategic repositioning work that we've done, which has further added to our cash balance.

So I wouldn't view the comment at all as a comment on any lack of growth opportunities. We put a significant amount of capital into growth already. We anticipate putting a significant amount of capital into growth going forward, which Jay will talk more about. But it was more the level of confidence in our business and where we are today on our cash balance and on our overall balance sheet positioning.

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

Yes. And that is really the point. Maybe I'll say it flatly, Chris. Our new investment pipeline continues to be strong, and we have made good progress as these conversations have returned to us. So we're very excited about new investments being a material growth driver in the near, medium and long-term for us. And I think we've done some things that will affect both the near, medium and long term. So I would really make sure that we land that point with you, that there is no messaging here. Where the messaging really comes is that our business has performed better than we might have expected earlier in the year, both with the recovery and the resilience of our Affiliates. We did take an opportunity to build a stronger, longer duration, more flexible balance sheet. And so we find ourselves with a business that's performing well and a balance sheet that's strong. And even though we have a very active new investment pipeline, we still can return capital, as we've said in the past.

Operator

We've reached end of our question-and-answer session. I'd like to turn the floor back over to Jay for any further or closing comments.

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

Thank you all, again, for joining us this morning. We remain focused on the significant opportunities ahead of us, and we will continue to leverage our core competitive strengths in our nearly three decade-long track record of successful partnerships, to further enhance our competitive position, and create shareholder value over time. I hope everyone remains safe and healthy, and we look forward to speaking with you next quarter. Thank you.

Operator

Thank you. That does conclude today's teleconference. You may disconnect your line at this time, and have a wonderful day. We thank you for your participation today.
