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AMG - Q2 2019 Affiliated Managers Group Inc Earnings Call

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OVERVIEW:

Co. reported economic EPS of $3.33.

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PRESENTATION

Operator

Greetings, and welcome to the AMG Second Quarter 2019 Earnings Call. (Operator Instructions) As a reminder, this conference is being recorded.

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

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

Thank you for joining AMG to discuss our results for the second quarter of 2019. In this conference call, certain matters discussed will constitute forward-looking statements. Actual results could differ materially from those projected due to a number of factors, including, but not limited to, those referenced in the company's Form 10-K and other filings we make with the SEC from time to time.

We assume no obligation to update any forward-looking statements made during this call. AMG will provide, on the Investor Relations section of its website, at ir.amg.com, a replay of the call, a copy of the announcement of our results for the quarter and a reconciliation of any non-GAAP financial measures that are not announced on this call to the most directly comparable GAAP financial measures.

As a reminder, we have also included an updated investor presentation on this section of our website. AMG encourages investors to consult the Investor Relations section of its website regularly for updated information.

With us on the line 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. It's good to be with you on my first quarterly earnings call as CEO of AMG, and I would like to welcome Tom in his new role as CFO.

We along with the rest of the management team look forward to executing on AMG's long-term strategy, leveraging the significant competitive advantages that we've established over our 25-year history to generate long-term sustainable growth and create shareholder value.

AMG reported economic earnings per share of $3.33 for the second quarter. Outflows of $15 billion, were elevated, driven primarily by quantitative strategies across our liquid alternatives and global equities and will likely remain at similar levels in the near term, given ongoing performance headwinds in these areas.

As Tom will discuss in further detail, it's important to note that these outflows had a disproportionate impact on our headline organic growth profile relative to their impact on earnings. More broadly, we are seeing positive momentum across our Affiliate Group in multiple product areas.

Industry growth in global private equity, infrastructure and real assets is benefiting our illiquids strategies at Affiliates, such as EIG, Pantheon and Baring Asia as well as fixed income strategies across traditional and relative value alternative products at Affiliates, such as GW&K and Capula. And with the closing of our investment in Garda, we are increasing our exposure to in-demand fixed income alternatives.

In addition, our Affiliate group includes some of the industry's leading global and emerging marketing equity managers, such as Harding Loevner, Tweedy, Browne, Genesis and Veritas. And given their excellent long-term performance track records, we're well-positioned for future growth in this category.

At the highest level, AMG's boutique-focus model is positioned to capitalize on key industry trends, including the recognition by clients that alpha generation is driven by skill, not scale and that the essential characteristics of independent firms result in inherent advantages in generating alpha relative to large-scale manufacturers.

These fundamental characteristics, include boutique's entrepreneurial investment-centric cultures, specialized focus and direct management ownership, which together foster a long-term orientation and an alignment of interest. And as AMG's research has empirically demonstrated, boutique managers have outperformed both indices and non-boutiques over time, especially in volatile markets.

We have deep expertise in identifying and selecting high-quality boutique investment firms and structuring permanent partnerships that align the interests of our clients, our affiliate partners and our shareholders. In addition, AMG offers a signal point of access to these industry-leading boutique capabilities at scale, while preserving their unique investment cultures, which are critical to individual affiliate success.

And finally, we have extensive industry relationships that we can leverage to enhance the growth of our affiliates and our business.

With these competitive strengths, in combination with the execution of our strategy, AMG has unique agility in evolving and enhancing our exposure to a number of the fastest-growing areas in the asset management industry through both collaborating with existing affiliates and partnering with new affiliates.

Over the years, AMG has worked closely with our affiliates as they evolved their investment and product capabilities to pursue growth initiatives to meet client demand trends. Through this collaboration, we have encouraged our affiliates to innovate in ways that further enhance their growth, stability and global client reach.

For example, we have helped affiliates to successfully launch new business lines to expand into new asset classes and channels, leveraging our capital and distribution resources to establish and market new products.

We've also assisted affiliates in sourcing and executing lift-outs, acquisitions and new business development opportunities, including most recently, combining Trilogy's Emerging Markets team into GW&K last year. And today, these products are winning new mandates.

One of the most significant examples of our ability to leverage AMG's talent, resources and scale to support growth of our affiliates is the successful execution of our global distribution strategy built over the past 15 years.

Through the strong relationships and dialogues we have developed with asset owners and intermediaries around the world, we continue to evolve our global distribution platform to meet changing buyer preferences and objectives.

As we discussed last quarter, AMG is making progress in building strategic relationships with key financial institutions, distributors and solution providers globally to enable our affiliates to gain access to high-quality scaled distribution, particularly in regional wholesale channels, where we believe partnerships are the optimal way to extend our reach and scale.

Turning to new investments. Earlier this month, we closed on our investment in Garda Capital Partners, a premier relative value fixed-income specialist adding to our organic growth profile in this in-demand product category and further enhancing the earnings power of our business.

We are building momentum in our new investment activities and are actively evaluating a broad range of prospective affiliates. Our transaction pipeline includes a diverse range of high-quality growing independent firms that are well-aligned with our partnership criteria.

AMG's model continues to be highly attractive to our target prospect universe. Independent firms inevitably need to address succession planning. And those firms seeking a solution that preserves and protects their entrepreneurial cultures among successive generations of management are drawn to AMG's partnership approach. In executing new investments, we are not only adding excellent talent but also, in-demand and immediately saleable product that will drive growth, and sustain our competitive positioning in an evolving industry.

And our ability to evolve and scale our business without the risk or cost of integration is another distinctive competitive advantage. Traditional acquisitions and recent mergers in the asset management industry are often driven by cost synergies, and many have resulted in prolonged periods of lower organic growth, given client and business disruption.

Through the successful execution of our new investment strategy, AMG is well-positioned to simultaneously grow our earnings, while enhancing the long-term growth profile of our business.

Through our revenue share model, which minimizes operating leverage and the scale and diversity of our global franchise, we generate significant and stable free cash flow. And together, with modest leverage, we have substantial capacity and flexibility to execute on our growth initiatives.

We will remain disciplined in deploying capital and selective in partnering with the highest quality firms in our industry.

We will also continue to return capital to shareholders through dividends and share repurchases as we demonstrated this quarter and over the last 3 years, resulting in a significant reduction in our share count.

Stepping back, having just returned from our annual strategic board off-site and as our leadership transitions to the next generation, we are bringing together the history and experience of operating AMG's successful partnership model and the focus and energy of a new generation of management.

This change has reignited the entrepreneurial culture and partnership orientation that have always defined AMG. And I am optimistic as ever about our ability to capitalize on key industry trends through the excellent execution of our vision.

Our strategy is to generate long-term value by investing in leading independent active investment managers through a proven partnership approach and allocating resources across AMG's unique opportunity set to the areas of highest growth and return. And as the role of boutiques in generating alpha and delivering superior client outcomes becomes even more differentiated, we believe that our strategy is as important as ever in aligning the interest of clients, affiliates, AMG and our shareholders.

As we position our business for growth, we will evolve and shape our resources to align with our strategy and focus our organization on the most significant growth opportunities before us.

AMG's model is truly unique. We've built a diverse business, which includes long-term partnerships with many of the most highly regarded independent firms in the world with established track records of outperformance across a wide array of investment strategies and in a number of the fastest-growing segments of the industry.

Given our reputation as the partner of choice to excellent firms and expertise in making new investments, we are able to simultaneously grow our earnings and enhance our organic growth profile, while also consistently returning capital to our 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*

Thanks, Jay, and good morning, everyone.

I'm both humbled and excited to have joined AMG and look forward to working with our leadership team to execute against our growth strategy in the years to come.

Net client cash outflows of $15.1 billion were concentrated in quantitative strategies across liquid alternatives and global equities. And as Jay said, we expect that this level of net outflows will likely continue at a similar pace as performance challenges in these areas are addressed.

Turning to flows by asset class. In our alternatives segment, which accounts for 37% of our AUM, we reported net outflows of $7.4 billion, driven by liquid alternative strategies and partially offset by positive contributions from illiquid products.

While long-term investment performance in liquid alternatives remains strong, with 66% of assets under management outperforming benchmarks over a 5-year period, more recent performance in this area has been challenged as value factor strategies have underperformed broader markets at an historic level, resulting in sustained pressure on net flows.

At the same time, several affiliates are generating strong results within the liquid alternatives area, including momentum in Capula's fixed-income relative value strategies, and we look forward to additional momentum in this category from Garda in the coming quarters.

We also continue to see a steadily growing opportunity in illiquids as our affiliates build on existing and new product capabilities with ongoing fundraising at EIG, Pantheon and Baring Asia in the quarter.

AMG's performance in this category is very strong, with 94% of our recent vintages outperforming industry benchmarks on an IRR basis. We are also beginning to realize the benefits of our performance by way of carry realization, as we did this quarter, and expect this to be an additional driver of earnings growth over the long term.

Now turning to global equities, which account for 35% of our AUM. While we saw net outflows of $6 billion in the quarter, primarily in quantitative strategies, new mandate wins in fundamental global and emerging market strategies were positive contributors.

Our affiliates continue to generate strong long-term performance in global equities, particularly in fundamental strategies, with 62% of our AUM ahead of benchmark over a 5-year period.

In U.S. equities, which account for 14% of our AUM, we reported net outflows of $2.3 billion, driven by institutional redemptions and partially offset by retail inflows. While we saw some improvement in the quarter, U.S. equities performance continues to be affected by our overall value bias, with 39% of our strategies outperforming benchmarks on a 5-year basis.

Turning to multi-asset and fixed income, which accounts for 14% of our AUM. Here we posted $600 million in net inflows, primarily driven by GW&K's municipal bond products and supported by AQR's systematic fixed-income products, which continue to generate good flow momentum. With respect to overall net client cash flows, as Jay mentioned, it is important to understand the difference between flows and their impact on our financial results. A large equity method affiliate had an outsized impact on our headline flows during the quarter. While this affiliate represents approximately 25% of AMG's AUM, the business contributed less than 10% of our EBITDA this quarter.

Now turning to our financials. As you saw in the release, quarterly economic earnings per share decreased by 8% year-over-year to $3.33, including $0.22 of net performance fees driven by illiquid alternative carry that we initially anticipated would be realized in the fourth quarter. For the second quarter, aggregate fees declined 9% to $1.2 billion driven primarily by lower average AUM. Adjusted EBITDA declined 11% to $219.3 million driven primarily by lower aggregate fees as well as lower contribution from certain of our equity method affiliates where we share in margin. Relative to adjusted EBITDA, the year-over-year decline in economic earnings per share of 8% reflects a lower share count, partially offset by higher cash taxes.

Now turning to specific modeling items. For the second quarter, the ratio of adjusted EBITDA to average assets under management was 11.3 basis points, supported by higher performance fees. Excluding performance fees, this ratio was 10.5 basis points. In the third quarter, we expect adjusted EBITDA to average assets under management to be approximately 10.6 basis points, reflecting seasonally lower performance fees and the addition of Garda. With respect to performance fees, we booked $0.39 through the first half of 2019, and we expect performance fees in the second half of the year to be between $0.25 and $0.75, reflecting the pull-forward of illiquid fees into our Q2 reported number and $0.01 to $0.03 of estimated performance fees in the third quarter.

Over time, given the diversity of our product set, performance fees remain a significant earnings growth and cash flow-generation opportunity for AMG.

Our share of interest expense was $19.7 million for the second quarter, reflecting higher interest on junior subordinated notes issued in the first quarter of 2019. In the third quarter, we expect our share of interest expense to remain roughly flat at approximately $20 million. Our share of reported amortization was $55 million for the second quarter, including $39 million from affiliates accounted for under the equity method. Looking ahead to the third quarter, we expect our share of reported amortization to be approximately $56 million.

Our effective GAAP tax rate was 23.7%, and our cash tax rate was 19% for the second quarter. For modeling purposes, we expect our GAAP and cash tax rates to be approximately 25% and 19%, respectively.

Intangible-related deferred taxes were $6.6 million in the second quarter, and we expect intangible-related deferred taxes for the third quarter to be approximately $7 million. Other economic items were $0.5 million for the second quarter, and we expect other economic items to be approximately $1 million for the third quarter.

Our adjusted weighted average share count for the second quarter was 51 million, and we expect share count to be approximately 50.3 million for the third quarter. And finally, turning to our balance sheet. Our business model generates significant free cash flow, particularly relative to our current market cap, and we will continue to allocate capital to the areas of highest growth and return in our business.

During the second quarter, we paid a $0.32 per share dividend and repurchased $50.1 million in shares, reflecting a more modest level of repurchases, given the closing of our investment in Garda in early July.

We anticipate repurchasing approximately $200 million in shares over the second half of the year, depending upon market conditions and the level of new investment activity over that time frame.

We continue to maintain a prudent level of leverage and have repositioned our balance sheet over the last several quarters, extending duration, while maintaining flexibility and capacity to capitalize on growth opportunities even in challenging markets.

Given AMG's combination of distinct independent affiliates that are well-aligned against future client demand trends, our unique ability to make new investments that deliver both earnings and organic growth accretion, our stable cash flow profile and our flexible balance sheet, we are well-positioned to create long-term value for our shareholders.

Now we'll be happy to take your questions.

QUESTIONS AND ANSWERS

Operator

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

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

I guess maybe just kind of -- Tom, I think you kind of suggested that carry maybe impacted the quarter -- does that show up in the consolidated revenue line? Because that really seems to be a lot higher than I think any of us were expecting.

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

Thanks for the question, Rob. Yes, so performance fees did have an impact on the quarter, and in this case, the preponderance did come from one of our consolidated affiliates. Just to reiterate a little bit of color, through the first half of the year, we've now booked $0.39 and we've guided in the second half of the year from $0.25 to $0.75. So some of what we saw this quarter was really a pull-forward of illiquid carry that we thought was likely to hit in the fourth quarter and ended up impacting us in the current quarter. I think longer term, just to give you some color, obviously, we've seen some pretty good fundraising across our illiquid book over the course of the past several quarters. And we expect that to continue over time so we're continuing to build a book of illiquid performance fees that we think will be a positive earnings contributor over the course of the next several years.

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

And Rob, I'll just follow-up one point here. So we -- as Tom mentioned, we have great diversity in our performance fee opportunity, and we've seen that express itself over the years. The illiquid fundraising that we've done in the past 2 years, 3 years, is starting to come into our earnings, as Tom mentioned. And we've talked about seasonality in our performance fee opportunity, historically, has been really in the fourth quarter -- the significant portion coming in the fourth quarter and then with our affiliates that report on a lag, some performance fees in the first quarter. With this new opportunity or this growing opportunity in illiquids, we are going to see more performance fees come through, less seasonality in our business, more in the quarters in which we express the carry. And so that happened this quarter, and I think we'll see that in the future years.

Operator

Our next question comes from the line of Craig Siegenthaler with Crédit Suisse.

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

I want to see if you had any color on how your EBITDA adjusted net flows organic growth rate looked in the quarter, just given that most of the outflows were from an affiliate that contributed less than 10% of your EBITDA this quarter?

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

Yes. Thanks, Craig. It's Jay. We -- Tom mentioned this in his prepared remarks, we did have a disproportionate contribution of flows from quantitative liquid and global equity products on our organic headline number relative to the more modest contribution to our earnings. And you can see that just in the earnings themselves. Both the EBITDA and the earnings we've reported were solid and yet, our flows were elevated. So the contribution of these flows were much lower on that basis. And noting the contribution of one large equity method affiliate, which is AQR, that equity method

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affiliate is now lower than 10% of our contribution to our EBITDA. The 10.5 basis points, as we know, is the model convention that -- 10.6 is what we're guiding to and the 10.5 that we experienced, we will see that ratio move up we think over time. And at this point, we've experienced most of the decline in that ratio.

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*

Just maybe building on this last point, can you guys update us where AQR and BlueMountain stand with respect to their cost-reduction initiatives? And maybe, how much of the EBITDA drag in the current quarter is still coming from the fact that, I think, BlueMountain is net negative from an EBITDA perspective? And I guess just bigger picture, do you guys envision any other affiliates, either current or prospective that are pushing towards more of your profit share structure versus AMG's typical revenue share?

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

Yes. Thanks, Alex. So just -- I'll take the first one being BlueMountain. On BlueMountain, there's a couple things to know here. We continue to work with BlueMountain in repositioning the business towards profitability. We see that being resolved by year-end. Any financial impact is in the numbers. It was modest this quarter, a couple of million dollars, and we're -- so we're already moving in that direction. And we do see that we're on track to resolve the profitability by year-end. So that's on path and in a good place. Maybe taking your AQR question and just stepping back for a moment on AQR, so the business is in a very strong position. It's a very large, diversified business, as you know, nearly $200 billion in AUM across several distinct business lines, including traditional equities, fixed-income, absolute-return and total-return alternatives. We strongly believe in AMG's -- AQR's ability to generate long-term investment returns. These are important products for portfolios, and given their proven investment process and culture and the strength of their leadership team and their multidecade track record of outperformance, we do see that business having long-term positive trends.

There's also great optionality in this business. Cliff and the management team are focused. They're fully aligned as majority equity holders in the firm. And they've been through difficult times before emerging each time as the stronger organization. They're very entrepreneurial firm, lots of new products and lots of new businesses that can scale dramatically. Today, we see AQR running their businesses at scale, and they have ability to run them at industry margins and certain areas that we're seeing them invest for future growth, and we're very supportive of that growth, taking margin down temporarily in the short term for the benefit of the long-term. And we see that, that's a repeatable business decision that they've made over the years. As you know, we made this investment when the business was only $12 billion in AUM, they've grown and diversified over all these years in building out new business lines.

Today, they have a number of opportunities in their business. First, a number of the products are high-performing, including, for example, risk parity, defensive equities, fixed income, they're also investing in a number of growth areas, including ESG and tax managed strategies.

So longer term, we do see margins returning, we see growth returning at AQR, and so we're very bullish on this business, and I'll just repeat that we see great optionality in the business. Away from these 2, 90% of our EBITDA is covered by revenue share. So as we said, really, it's just these 2 that we have margin exposure. One is going to resolve itself by year-end, the other's got tremendous upside in margin from here.

Operator

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

William R. Katz - *Citigroup Inc, Research Division - MD*

So the 2-part question. Sorry, if it's a bit unrelated. Just sort of wondering if you might be able to help quantify or ring-fence the areas of risk that you see in terms of the liquid and the global equities of -- what might be the size of at risk -- assets at risk, excuse me? And then Jay, just basing your comments around, sort of what I see in those questionary comments around sort of integration-led transactions, does that suggest that you're more in on affiliate bolt-on type of opportunity? Or is there an opportunity to consolidate some of the other holding company structures?

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

Well, those were 2 different questions. But let me start with a bit more color on the flows. In -- look, it's always hard to predict flows in general, and as we said in our prepared remarks, we do see elevated outflows at similar levels in the near term in quantitative liquid alts and global equity products. Longer term, we see these products improve and clients do need these in their portfolio. So the secular trends are still in place.

We have a broad array of liquid alts and global equity products. Our outflows were localized in certain products. But I will just note that in the second quarter, these products did account for nearly all of our outflows. And so just noting that was masking some of the positive momentum that we have in our business in other areas, illiquid equities, traditional and alternative fixed-income strategies, including Garda, which we just recently closed, fundamental global equities, including emerging markets. And even in U.S equities, we're seeing a number of our managers being recognized for their value orientation as investors are increasingly looking for defensive equities.

So all -- nearly a 100% of our flows were in -- were localized in a few product areas, and it really was not the broad array of our quantitative and -- quantitative liquid alts and global equity products.

As you know, we have a number of affiliates, including AQR, but also Systematica, First Quadrant and Winton, all have these products. And -- with the exception of the CTA momentum-driven products, which are still suffering from some headwinds, although, the product performance has gotten better. Generally speaking, product performance across those affiliates is improving in and frankly, in the quarter and even in this quarter that we're in, has gotten a lot better. So we do see performance returning and this is a localized set of products.

To your question on M&A, since you asked 2 questions, I will maybe take the opportunity to discuss our pipeline and industry consolidation trends. Stepping back for a moment, our strategy of partnering with excellent firms has and of course, always will be the cornerstone of our growth initiative as it relates to moving towards client secular trends as well as adding incremental earnings without the risk or cost of integration. And Bill, as you know, I started my career in M&A, joined AMG over 12 years ago to oversee our new investments function. Being responsible for a number of our largest affiliates, today, as CEO, I'm looking forward to spending even more of my time calling on prospective affiliates and building relationships with great firms around the world, and we hope over the coming years to really increase the capital allocated to our new investment strategy and our growth strategy. I've already been spending a meaningful amount of my time in this area, and we're not only going to -- we're going to broaden our relationships and use the whole management team towards this effort. And as I said in our -- in my prepared remarks, we're building momentum in our new investment activities, we're actively evaluating a broad range of opportunities. We're -- when you look at the current pipeline, we have a good mix of alternatives, both liquid and illiquid as well as long-only fundamental managers, primarily in EM and global equities.

The market is large for boutique investment management, and so we do see our solution being appropriate for and attractive to a large number of managers. And so we do expect that the demand is there for our solution. Specifically to your point about industry consolidation, there is and has been and really will always be M&A activity that's focused on consolidation. But consolidation to reduce cost can be efficient for some firms, particularly, in areas such as distribution, however, you have to be careful, particularly, in active management because there is one area that can't be consolidated and that's investment performance. Scale is your enemy, not your friend there. So while there is, of course, economies of scale in our business and we do offer that to our boutique managers, it primarily is in the areas of distribution and other areas, not in investment and investment performance. And I mean then lastly, you've talked about our ability to execute on larger transactions. And I think we've always said that it's important to note that we have a unique model. We believe in our partnership model as it relates to succession planning. To the extent that we were to look at larger transactions that come with multiple affiliates, I think they would have to be both at the level and quality and standard of our process that we use on the new investment side, and they would have to have a -- we'd have to have a view on how we would get them into our -- ultimately, our succession planning model. If those things were -- in place, of course, we would consider other larger firms. But that bar is high, and obviously, those transactions are difficult to execute.

I think when we look forward at our growth opportunity, we see plenty of opportunity in the bread and butter of AMG, which is to do high-quality boutique investment management firms and active management, and that's what we're going to do.

Operator

Our next question comes from the line of Chris Shutler with William Blair.

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

So on the pipeline, Jay, the -- you talked about building momentum in the pipeline. Just give us a better sense of what that means relative to maybe 6 or 12 months ago, how you felt in? I know these things happen on their own timetables, but what do you think is a reasonable way of looking at the amount of capital or deals that you could do on an annual basis going forward?

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

Yes, Chris, so we've always been active and always have spent a good amount of time cultivating relationships. So, as you know, we've had multi-decade relationships with firms. It's fair though to say that we've been through some transition at our firm, and I think you asked about 12 months ago and even 24 months ago, I think when we look forward, as we've made this transition to the next-generation and I've stressed in my prepared remarks, the energy and focus of a next-generation. We are seeing the pipeline built, the activity built, the ability to broaden the number of people here at AMG who are calling, including my own time.

So I do think that the forward prospect of transactions and capital deployed into transactions will be greater, certainly than 12 months ago because of the sum of things that I said.

In terms of reasonable capital, I mean, look, it does depend on the market environment. There's always opportunity with independent firms because succession is inevitable. It has its own natural course in each firm, and therefore, it gives us a reasonable supply in any period. Markets can accelerate in certain [periods] (added by company after the call) regulatory change can accelerate that, for example, just taxes alone can be an accelerant.

As we look forward over the next 12 to 24 months, it is a favorable environment to do transactions, and so we do see the prospect of additional growth through new investments.

Maybe, I'll let Tom talk about capital in general and capital allocation as we think about it.

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

Thanks, Jay, and thanks for your question, Chris. Obviously, I think capital allocation certainly goes hand-in-hand with all the color that Jay just provided. As you know, our business generates a significant and predictable stream of unencumbered free cash flow, probably something on the order of $700 million a year in after-tax free cash flow. And we also had tremendous flexibility with respect to our balance sheet. We have a $1.25 billion revolver, so we have a lot of capacity. So to the extent that some of these transactions do come to fruition, we think we can quite easily put out $1 billion in capital over the next 12 months since we'll be in a very reasonable leverage position.

Of course, when we are putting capital to work on new investments, we're bringing in cash flows. So as we think about leverage and ratios, they -- overall, those cash flows come into the business.

The other thing that I think is important to mention here, clearly, new investments are our primary focus and what we believe to be the best use of our capital over the long-term for all the reasons that Jay has touched on. But in addition to that, to the extent that we don't find the opportunities, we have and will continue to return excess capital through share repurchases and dividends as we've done in the past.

Since 2017, we returned more than $1 billion through share repurchases, and we reduced our diluted share count by more than 11% over that time period. And have also paid more than $140 million in dividends.

So to Jay's point, we'll continue to look for outstanding new affiliates to partner with to continue to build our business, and we'll also be very prudent and thoughtful in the way that we return excess cash to the extent that we have it.

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

Yes, and I think that was a really good summary. Let me just say, not withstanding our desire and our energy to go out, and entrepreneurialism to go out and continue to execute our new investment strategy, we don't have a target in any given period because quality is the most important thing to AMG. And luckily, because, or I shouldn't say luckily, but by design, we have a balance sheet that has both the capacity and a business model that has the free cash flow, given the revenue share model and the diversity and stability and scale of our business that with any excess capital, we can be very productive and repurchase our shares. And that's what we'll do.

Operator

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

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

You mentioned EIG, Pantheon and Baring all in the market with some flows in 2Q on the illiquid side. Could you maybe help frame how many strategies are in the market in that bucket? And the target AUM in sum, even if it's just some broad ranges, I think that will be really helpful for all of us.

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

Yes. So Patrick, it's a good question because actually in the second quarter, illiquids had just idiosyncratic closings in the quarter which were light. And I think when you look at our headline, gross sales and alternatives, in addition to having the -- in addition to comments I made on the liquid alt side, we did have a softer illiquid-funding quarter. That was temporary because as we look in the third and fourth quarter, we think it will return to normal and even into next year. And I said, as you point out EIG, Pantheon and Baring Asia, all continue to be in fundraising mode each with multiple products. So what is that half dozen or more products that they are out actively marketing.

Operator

Our next question comes from the line of Mike Carrier with Bank of America.

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

Maybe just given the annual strategic board off-site and the new management, you guys in place now, besides looking for quality affiliates, are there other new initiatives that you guys and team will be focused on, whether it's in areas like distribution, products, expenses or any others that can drive value and growth over time?

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

Thanks, Michael. So you stated our first objective and in our strategy, which is, we do believe in the superior capabilities of boutiques in generating alpha, and we think that's going to be, in the future, even more important, especially as we move into more volatile periods. I think there's been a lot of recent press on this, and we certainly support the thesis that we are moving into the age of boutiques. Let me pause and say, I think it's clear to everyone that we have a model that scales boutique capabilities by virtue of the fact that we protect the inherent value of the investment process and the equity alignment with clients, affiliate partners and you, our shareholders. That model allows us to scale manufacturing of boutiques in a way that no one else can, and doing so without the risk or cost of integration.

So that is a clear competitive advantage of ours and something that we, as a strategy matter, do expect to continue to execute on in an excellent way, allows us to be very agile, as you think about it as you move towards client demand trends long-term secular client demand trends over time. There are multiple levers of growth in our business and so away from new investments, we would like to invest in the the growth initiatives of our existing affiliates. They, at any moment in time and obviously these things can be both secular and cyclical, have opportunities for new products, for new distribution, for new packaging. And we have been very active, maybe more active than we've ever been in helping our affiliates grow and use both our resources and capital to do so, and I mentioned in my prepared remarks, just recently we assisted GW&K and Trilogy in bringing the Trilogy Emerging Market products into the GW&K franchise. Those products are growing, and we see that being something that we supported, and it was a growth initiative of both firms. Beyond that, we've also seeded product and continue to see that as an opportunity where we can build additional opportunity at Affiliates that have brands and have the investment capabilities. We've assisted Pantheon, for example, in extending their reach into Japan. We assisted Pantheon in launching and marketing new products, in U.S. retail. We've worked with our affiliates on both acquisitions and lift-outs. And so when we take a step back, we see our affiliates, especially those that are moving towards client demand trends, we see opportunities for us to invest directly in their businesses or alongside them in a way that is unique in our industry. So that clearly is a growth area and a growth opportunity. And finally, our global distribution effort, which we've talked a lot about, recently, not only continues to operate and leverage the skills of our AMG talent for the benefit of our affiliates and regions in the -- around the world where our affiliates, our boutiques can extend their reach, we can use our scale and brand to raise assets for them. But because of that effort, we've evolved and we continue to see strategic partnerships as a valuable growth opportunity for us. You heard us say last quarter and progress this quarter on Nordea, we've now seen funding across 2 affiliates and 3 products. We expect to add more affiliates and raise additional assets here. That has been born out of our distribution efforts over time. And the benefit that we have with these relationships is that we can move to wholesale channels around the world without having to build scale in those channels. And so these partnerships are allowing us to have a single point of contact, bring our boutique manufacturing into those regions and into those intermediaries to allow us to leverage what they've already built.

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*

Maybe just a follow-on on the distribution question. Jay, as you see it for the investment and distribution, do you see more of that coming internally at the Affiliates? Or is AMG, the holding company, making a larger effort economically there? And is that something that we could see potentially pressuring the EBITDA fee realization rate? And then just one clarification on a prior question. I think Bill asked about the AUM that was at risk in the liquid -- in the localized liquid alt strategy that you mentioned, I missed that AUM number, if you want to just repeat that?

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

So on just your topic of distribution, well, maybe, if I can just continue on the topic of distribution for a moment and the cost associated with it, we've really built distribution -- institutional distribution in a very efficient way because we are leveraging many affiliates in those regions. As you know, we have a cost recovery approach to our distribution efforts. So as it relates to AMG's cost, we do not see it really going up materially, we've been able to work with our affiliates and really build that, kind of, one step at a time in a very efficient way. So we -- I don't -- I guess, my expectation is it would not increase our cost, but we can continue to offer those services and build out those services. These strategic relationships that I mentioned are extraordinarily efficient, bringing potentially scaled assets really through the efficiency of working with AMG to access all of our Affiliate products. When we look at the -- flipping to your second question, I think it's a difficult question to answer because while there were several products that had outflows in the quarter, we don't really classify AUM at risk, in part, because performance continues and moves and changes at any point in time. So while we did see it localize in AUM, I don't think it's productive to point to an AUM number because we would not expect that number to necessarily be the at risk AUM. In fact, we are very optimistic that that this period is temporary and that we will return in all products to a level of normalized both gross sales and redemption. And Tom, if you wanted to add to it?

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

Yes. I think the other thing, Brian, just to add to Jay's point, number of the areas where we've seen recent outflows, our product areas are individual funds that have multi-decade performance track records that have been incredibly strong and have seen weak performance, really only over the course of a relatively short period of time. And we've seen outflows in those areas, and as we talked about in our prepared remarks to the extent that those performance challenges continue, we may see continued pressure. But I think, taking that half step back, it's not really categorizing something at risk because -- and these are long and storied franchises that have incredibly strong brands, and that we believe in the role that they play over the long term in client portfolios, providing uncorrelated return and are really important part of portfolio construction.

So I think we and our affiliates are working through some of those challenges today but over the long term, we still have a lot of belief in those businesses, in those products and in the roles that they play as part of client portfolios.

Operator

Our final question this morning comes from the line of Dan Fannon from Jefferies.

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

Can you talk about just the pricing for your deals? And, like obviously, multiples for your stock and other kind of publically traded estimators have come in a lot, and so just curious as how the private markets transactions, and what you're looking at in terms of pricing, has changed?

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

Dan, so I would put pricing structure alignment and ownership all in the same bucket. And so, as you know, our ownership model, our partnership model, we're very interested to really only purchase at an amount of equity initially that continues the alignment in the long-term succession plans that we put in place at the time of initial investment.

The reason why I started here is that, that tends to be -- it tends to dominate the discussion because really these businesses are looking for a succession plan. And when you're selling only a portion or say, half of the equity in your business then you really care a lot about the other half and what the growth profile and which -- who your partner is and how they're going to transact. So pricing has always been part and parcel of our model. That said, we have seen pricing come down in most of the areas of boutiques. I would say, the one exception being illiquids. But in other areas, we have seen pricing come down and possibly because the industry multiples for public managers have come down and while it lagged, it has come down. When we look at structuring and pricing today, we are seeing acceptable levels relative to even where our stock multiple is. And so we see no problem transacting it, kind of the lower end of our 8 to 10x multiple that we've historically transacted at.

Operator

Thank you. Ladies and gentleman, 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. - President & CEO*

Well, thank you all, again, for joining us this morning. As you heard through our unique business model along with our ability to execute against our strategy, we are confident in our ability to generate long-term sustainable growth and to create shareholder value over time. We look forward to speaking with you next quarter.

Operator

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