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AMG.N - Q2 2021 Affiliated Managers Group Inc Earnings Call

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OVERVIEW:

Co. reported 2Q21 economic EPS of $4.03.

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PRESENTATION

Operator

Greetings, and welcome to the AMG Second Quarter 2021 Earnings Call. (Operator Instructions) As a reminder, this conference is being recorded.

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

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

Good morning, and thank you for joining us today to discuss AMG's results for the second quarter of 2021.

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 and Chief Executive Officer*

Thanks, Anjali, and good morning, everyone. Growth continues to be a theme for AMG as evidenced by our outstanding second quarter results, which were driven by the consistent execution of our strategy and enhanced by our focus on new investments.

Economic earnings per share of $4.03 grew 47% year-over-year and represented the strongest second quarter in our history, primarily driven by EBITDA growth of forty percent and ongoing share repurchase activity. Year-to-date, our Affiliates' excellent absolute and relative investment performance has resulted in higher asset levels, enhanced organic growth and meaningful performance fees.

We began the quarter by announcing our new investment in OCP Asia, increasing our exposure to the region and its fast-growing private credit markets, and we ended the quarter with the announcement of our newest partnership in Parnassus, the largest independent ESG-dedicated fund manager in the industry.

Together, with our recent investment in Boston Common, a long-term leader in impact investing, we expect that these new Affiliates will contribute over $90 million in EBITDA in 2022 and contribute meaningfully to our organic growth over time. And we are only halfway through 2021. With the addition of Parnassus, our run rate EBITDA is now over $1 billion, increasing our opportunity to invest in new Affiliates and areas of secular growth and in resources to enhance the growth of our existing Affiliates, including strategic growth capital and distribution.

As evidenced by our seven new partnerships, which we've established over the last 2 years, our model is resonating with the highest quality independent investment firms in the industry.

Looking ahead, we see an even greater opportunity to execute on our new investment opportunity set, given the favorable transaction environment, AMG's strong competitive position and the increasing demand for our partnership solutions. As I highlighted in prior quarters, throughout the pandemic, a number of client demand trends have remained intact, including the ongoing demand for illiquid alternatives, while other trends have accelerated, such as the appetite for responsible and impact investing, all against the backdrop of an improving environment for active management.

Our strategy is focused on investing in areas of secular growth and our new investments in 2021 reflect this focus as we have increased our exposure to fast-growing segments such as Asia, private markets and ESG.

With the addition of Parnassus, Boston Common and Inclusive Capital Partners, AMG's Affiliates will now manage more than $80 billion in dedicated ESG strategies, and more than $600 billion in strategies that integrate ESG into their investment process, and they are positioned to capitalize on future growth as investors around the world continue to turn to active managers for responsible and impact investing.

We are pleased to welcome Parnassus as AMG's newest Affiliate. A pioneer in sustainable investing, Parnassus has a 37-year track record of investing based on principles and performance, achieving attractive risk-adjusted returns by building portfolios that also have a positive societal impact. We have known Ben Allen, Todd Ahlsten and their partners for nearly a decade. And when it came time for Parnassus to choose a permanent partner and complete the first generational transition in the firm's long-term succession plan, they chose AMG. We believe that AMG's partnership approach is the best solution in the market today for independent firms -- as it preserves the alignment between clients and partners across multiple generations while maintaining the unique entrepreneurial cultures of partner-owned firms. And this will be especially important to Parnassus given its leading market position in responsible and impact investing.

Succession planning has been and continues to be a core component of AMG's partnership approach as generational succession and demographically driven transition is inevitable for partner-owned firms. Selecting an experienced supportive partner is critical to the long-term success of these independent firms. AMG's expertise in collaborating with Affiliates to develop and execute management transition plans and align incentives across generations of Affiliate partners remains a significant differentiating factor as firms select AMG as their institutional partner.

Today, having worked with Affiliates on these matters for nearly three decades, AMG is able to provide customized solutions for new partnership based on our foundational principles of independence, alignment and support. Over the past two years, we have significantly enhanced our strategic focus and our resources dedicated to originating, structuring and executing on new investments. For the first time since 2016, the majority of our cash flow will be deployed in new Affiliate investments already announced, with additional high-quality prospects in our transaction pipeline.

As I said before, growth was certainly a theme for the second quarter. In addition to new investments, the strategic actions we have taken to invest in our Affiliates and in distribution resources on behalf of our Affiliates are also key contributors to that growth. During the quarter, we completed the evolution of our U.S. wealth platform, AMG Funds, to an Affiliate-only model, consistent with our institutional distribution strategy. We have received shareholder approval for all funds transitioning from external sub-advisors, resulting in an incremental $4 billion in assets now being managed by [AMG] (corrected by company after the call) Affiliates. As part of these changes, we are offering a more differentiated product lineup at lower fees and providing clients access to excellent Affiliate strategies, including in attractive areas such as ESG equities and fixed income, Asian equities and international equities. This is an important evolution of our strategy as all of AMG's operations and resources across our institutional and wealth platforms globally are now fully aligned with our Affiliates, which positions us to deliver meaningful additional organic growth over time. And this is just one example of shareholder value creation through investments in our Affiliates' growth. Several years ago, we seeded the AMG Pantheon fund with $10 million, given the opportunity we saw to provide U.S. wealth investors access to private equity portfolios. And last week, the fund reached a significant milestone, crossing the half billion dollar mark in AUM.

The fund's performance is outstanding and its organic growth is accelerating as U.S. wealth investors are seeing the benefits of allocating to private equity in their portfolios. This is a great example of how AMG's central capabilities can drive new growth areas for our Affiliates.

In addition, we have been actively investing in Affiliates through lift-outs, including global sustainable equities and fixed income teams at Artemis and more recently at Pantheon, where we assisted in lifting out a real estate team for its Global Infrastructure and Real Assets platform.

Finally, the strength and momentum that we described in our business at the start of the year has only just begun to manifest in our results. As we look forward to the second half of 2021 and the full year 2022, we see tremendous opportunity to further build on this momentum through the continued execution of our strategy to drive top line EBITDA growth, which, together with share repurchases, will further compound our earnings per share and create meaningful shareholder value over time.

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

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

Thank you, Jay, and good morning, everyone. Our second quarter results demonstrate the differentiated growth drivers inherent in AMG's business model and our ability to create shareholder value now and into the future.

Our Affiliates delivered strong investment performance. We generated net inflows excluding quant strategies, we put significant capital to work both in new partnerships and investments in Affiliates, and we repurchased stock in the quarter, evidencing our ability to compound growth through each of our core earnings drivers.

For the quarter, Adjusted EBITDA of $227 million grew 40% year-over-year, driven by strong Affiliate investment performance and markets and the impact of our growth investments. Economic earnings per share of $4.03 grew 47% year-over-year, further benefiting from share repurchase activity.

Net client cash inflows, excluding certain quantitative strategies were $3 billion in the quarter, driven by private markets, specialty fixed income, U.S. equities, ESG strategies and the strategic evolution of our U.S. wealth platform, AMG Funds. Outflows from certain quant strategies totaled $11 billion and had a de minimis impact on our earnings.

Our organic growth profile continues to improve as clients seek active management solutions in the face of a more volatile market environment, and we continue to add new Affiliates in areas of secular growth, including ESG, Asia and private markets.

Turning to performance by asset class and excluding certain quantitative strategies. In alternatives, our illiquid strategies posted another strong quarter, with $3.7 billion in net inflows, led by strong fundraising at Pantheon, EIG and Baring. Performance in this category remains strong, with more than 90% of assets outperforming benchmarks in the most recent and prior vintages. Private markets businesses like OCP Asia, continue to be a focus area for us from a New Investment perspective and represent a significant source of management fee earnings stability and performance fee potential over the long term.

Within liquid alternatives, net inflows were $1.4 billion, supported by continued client appetite for alternative sources of risk and return in the low yield environment, including at Affiliates such as Garda and Capula. We continue to see significant performance fee generation in this category, reflecting our excellent performance across our concentrated long-only equity and specialty fixed income strategies.

Moving to global equities, we reported net outflows of $6.3 billion, driven by idiosyncratic, lower fee institutional re-allocation activity. These mandates accounted for approximately two-thirds of the outflows in this category. Long-term global equity performance continues to be strong, particularly in strategies that are meaningful contributors to our EBITDA.

Momentum in our U.S. equities strategies continues with inflows of $2.9 billion, driven by strong client demand, particularly for our value-focused strategies managed by leading firms such as River Road and Yacktman and our small-cap strategies. Our performance continues to be strong in this category and with our recent investments in Jackson Square, Boston Common and Parnassus. Going forward, we have a balanced mix of high-performing growth and value strategies.

Our multi-asset and fixed income category generated inflows of nearly $1 billion, primarily driven by ongoing demand for muni bond strategies and wealth management solutions, particularly at GW&K and Baker Street this quarter.

Turning to financials. For the second quarter, adjusted EBITDA of $227 million grew forty percent year-over-year, driven by strong Affiliate performance and markets, and additional earnings power from our recent new Affiliate investments. Our Adjusted EBITDA included $16 million of performance fees, and as I mentioned previously, reflects excellent Affiliate investment performance, particularly in our liquid alternatives category.

Economic earnings per share of $4.03 grew 47% year-over-year, further benefiting from ongoing share repurchase activity. Our recently announced partnership with Parnassus is expected to close early in the fourth quarter and will therefore have a partial year impact on our financial results in 2021. Net of one-time transaction costs, we expect Parnassus to contribute approximately $15 million to our fourth quarter EBITDA results. On a full year 2022 basis, we expect Parnassus to contribute approximately $70 million of EBITDA and $1.30 of economic earnings per share.

Now moving to specific modeling items for the third quarter. We expect Adjusted EBITDA to be in the range of $215 million to $220 million based on current AUM levels, which reflects a flat market blend through yesterday and seasonally lower performance fees of up to $5 million. Our share of interest expense was $27 million for the second quarter, and we expect interest expense to be $28 million in the third quarter, reflecting our recent hybrid bond offering.

Controlling interest depreciation was $2 million in the second quarter, and we expect the third quarter to be at a similar level. Our share of reported amortization and impairments was $36 million for the second quarter, and we expect it to be similar in the third quarter. Our effective GAAP and cash tax rates were 36% and 18%, respectively for the second quarter and we expect GAAP and cash tax rates to be 25% and 18%, respectively, for the third quarter.

Intangible-related deferred taxes were $31 million this quarter and we expect this to decline to a more normalized level of $12 million in the third quarter. Both our GAAP tax rate and intangible-related deferred taxes were elevated this quarter as a result of recently enacted U.K. tax rate changes and did not impact economic net income or economic earnings per share.

Other economic items were negative $(4) million. In the third quarter, for modeling purposes, we expect other economic items, excluding any mark-to-market impact on GP and seed, to be $1 million. Our adjusted weighted average share count for the second quarter was 42.5 million, and we expect our share count to be approximately 42.1 million for the third quarter.

Finally, turning to the balance sheet and capital allocation. Our balance sheet remains a source of strength as we invest for growth and consistently return capital to shareholders. Earlier this month, we further enhanced the balance sheet by issuing a 40-year $200 million hybrid bond at an asset management industry-low coupon of 4.2%. We continue to prioritize extending duration, enhancing flexibility and maintaining significant capacity to allocate capital to fuel our growth strategy. We also remain committed to returning excess cash to our shareholders. In the second quarter, we repurchased $80 million of shares, bringing us to $290 million year-to-date, and we remain on track for $500 million of repurchases for the full year, subject to market conditions and the timing of new Affiliate investments.

Over the last 24 months, we have returned nearly $1 billion of excess capital to shareholders, having repurchased nearly 20% of our shares outstanding, while simultaneously partnering with seven new Affiliates, and investing in our existing Affiliates and centralized capabilities.

As Jay highlighted in his remarks, our strong results this quarter demonstrate AMG's differentiated growth drivers and highlight the strength of our business model and the efficacy of our strategy. The momentum in our business continues to accelerate, and we are putting our capital and resources to work to compound growth over time. Our recent new [Affiliate investments] (corrected by company after the call) add significant and growing earnings power to our business and together with our strong capital position and demonstrated ability to return capital to shareholders, we are well positioned to deliver shareholder value over time.

Now we're happy to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Brian Bedell with Deutsche Bank.

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

If I can ask on Parnassus and the ESG strategy broadly. Obviously, this is sort of a big change or a big pivot in the ESG contribution for AMG. So a two-part question. First, just to clarify the $70 million of EBITDA, is that on the current $47 billion AUM? So I guess, is there upside to that if it continues to grow, we're seeing about $500 million monthly of organic or net inflows into the funds, for example. And then secondly, just broadly around the ESG strategy. Clearly, it looks like Parnassus will be the anchor for your firm. So curious to see to what extent you think you can leverage their products across your distribution franchise, whether you can create customized solutions using Parnassus, and then would you still be in the hunt for more ESG strategies? Or do you think you might be done for now with that investment strategy?

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

Thanks for your questions. We appreciate it, Brian. Let me take the second part on the strategy first, and then I'll let Tom talk about the impact of Parnassus on our financials. And I'll even back up a half second and talk about where ESG fits into our overall growth strategy. So I think you've heard us say in the last several calls that our strategy is focused on investing in areas of secular growth and that includes a number of areas: private markets, specialty fixed income, Asia, multi-asset solutions and especially and importantly, ESG. So you can put Parnassus in the context of our overall strategy.

ESG is one of the fastest-growing areas in the industry. I think we're all aware of that. It's also one of the fastest-growing areas at AMG. There's lots of data out there, but just the one that recently I came across was from the Global Sustainable Investment Alliance, who published some data [showing ESG] (added by company after the call) growing at double-digit rates over the last 5 years. I think we're seeing that as well. And Brian, you and Deutsche Bank have done some research in this area and I think you're coming up with similar facts. We see this as a durable trend given strong client appetite, and we believe that active management will take a leading role in the growth of sustainable investing. The one consistent theme that we're hearing across all of our client conversations today is the desire for, and the increasing focus, on sustainability.

And as clients have a greater desire to drive outcomes, that requires an active approach. We think this focus on sustainability is revolutionizing our industry, and we believe that active managers, especially and importantly, independently owned firms, will lead the industry through this evolution, both in public securities as well as in private investing. Now turning to AMG and how we're enhancing our exposure to ESG. Obviously, Parnassus is just one component of it. It is an area of continued focus for our prospecting activity in new investments, and it's clearly reflected in the new investments we have made. In addition to Parnassus, we've invested in Boston Common and we've partnered with InCap. And so we have greatly expanded our own ESG exposure in the last 18 months.

We've also actively collaborated with and also invested in some of our existing Affiliates to evolve and grow their ESG exposure. There are a couple of ways we do that. Most importantly, we've provided a centralized best practice and consultative approach so that we've been talking to all of our Affiliates about expanding their involvement in the ESG space. We've began marketing Boston Common through the strategic repositioning that we just did in AMG Funds. So we're now selling at AMG Funds, ESG strategies from Boston Common and GW&K. So we have about $2 billion of assets there. This is an Affiliate level investment that we've been making in both marketing and through the strategic repositioning of getting behind those products in our wealth channel.

And finally, we've seeded products at other firms like Artemis and GW&K that are involved in ESG. We're pretty much across the board investing in ESG, whether that's in new investments, in our own distribution or in seed capital for new products. Today, we have three Affiliates wholly dedicated to sustainable investing. That means our dedicated assets are now at about $80 billion, inclusive of those three and a number of other products at Affiliates that I just mentioned that we've seeded or supported. We have about $600 billion now in strategies that are integrating ESG factors because a number of our Affiliates were already integrating ESG factors into their investment process. So we do think ESG investing is best done by active management, as impact and positive change is really best achieved through stewardship and active engagement.

So maybe just mentioning Parnassus a bit more, and then I'll have Tom address the second part of your question. Parnassus was a larger transaction for us, obviously. The investment thesis there was it was a business operating in the ESG space, and the growth there is, I think, obvious. Its investment returns are excellent, and you can see that as well. It has been inflowing significantly. We're proud to partner with an extremely high-quality group of next-generation partners with the ability to grow further from here, both domestically and abroad within very scalable products. And this transaction, and I'm going to let Tom get into this now, will be immediately accretive to us. And it is our third largest transaction in our history, so it is a very impactful transaction.

Tom, I'll turn it to you to talk about the numbers.

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

Yes. Thanks, Jay. So just a couple of notes on the financial impact. First, in terms of structure, Parnassus is a majority revenue share investment for us, and it will be consolidated in our financial statements. Brian, you noted the $70 million of EBITDA and $1.30 of economic earnings per share full year expectation. That is based on the $47 billion AUM at the time of the announcement. And as you noted, we continue to see very strong performance and strong flows in the business. So there's certainly upside to that based on the way the business performs over time.

And just to take the opportunity to share a few thoughts on why we find this transaction, and really new investments in general, such an attractive use of our capital. First, as Jay went through in detail, Parnassus is clearly operating in an area of secular growth. It's been growing organically in the high single digits over the course of the past 5 years and at an accelerated pace year-to-date. So AMG steps into both earnings and organic growth immediately, which really is a hallmark of our new investment transactions. Second, we structured the investment to deliver strong returns across a range of outcomes. Third, we received step-up tax benefits. And in the current environment where we may see rising corporate tax rates, those benefits actually become even more valuable to us.

And finally, when these businesses come to us, they are unlevered businesses when we make the investment, and that gives us the ability to put an optimal capital structure on them at the AMG level, which really allows our capital to have an even greater impact on a dollar-for-dollar basis for our shareholders. So really a lot of excitement around this partnership and a lot of momentum overall as we think about investments and then the impact it can have.

Operator

Our next question comes from the line of Alex Paris with Barrington Research.

Alexander Peter Paris - *Barrington Research Associates, Inc., Research Division - Director of Research and Education & Business Services Analyst*

I think my question dovetails a bit into the prior question. But I've been covering AMG for many years, practically since its IPO across many business cycles. Lately, you've been talking about rising M&A activity and a significant amount of engagement with prospective new Affiliates, both the volume and the quality of your conversations. You've announced three investments already year-to-date, seven, as you mentioned since the beginning of 2019, including the majority investment in Parnassus, and you've said that you expect new investments to continue to be a significant source of forward earnings growth. My question is, what is different in the current environment? Why the recent above-trend success after a bit of a pause in 2017, 2018? I know you've talked about expanding your solution set. Maybe it would be helpful for us for me specifically, if you dive a little deeper into what's different now? What does the pipeline look like? What does the competitive situation look like: pricing, et cetera?

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

Thanks, Alex, and thanks for that question and also your own perspective that was implied in that question. You certainly have been covering us for a long time. We are seeing elevated new investment activity, and let me see if I can dive into that a bit more. Like I said in my prepared remarks, there were really three reasons for that. And just maybe restating that, we see a favorable transaction environment, and I'll maybe describe that or elaborate on that. Our strong competitive position is probably better than it's ever been, and we'll talk about why that is. And then also, there's good demand for our solutions and our solution set has expanded. Just quickly on the environment, I think this is clear, but there are thousands of independent partner-owned firms around the world. We have been actively monitoring them and developing --relationships -- proprietary relationships for over 30 years. So some of this is the cumulative benefit of having been in the market for a long time.

We are seeing more interest in discussions in part because growth capital is important now in our industry, but also there's a good supply of succession-driven demographically driven transactions that we haven't seen in some time. And that's elevating our pipeline. And I think it's adding to activity overall in the industry. So that's another reason why we see the environment as favorable. But maybe the last thing is that we're just in a relatively stable market environment. And I think I've said this before on prior calls, you need a backdrop of relatively low volatility to establish new partnerships, otherwise during the period of discussions, things have to remain relatively stable, and that hasn't been the case for some time now.

Elaborating further on our position in the market, and I've said this in the last two calls, the options for independent partner-owned firms have evolved over time. But in this most recent period, the skew has been towards consolidation and away from independence. So for us, in particular, firms that are seeking a 100% acquirer, they're not a good fit for AMG. And in my opinion, they're not really a good fit for clients. Consolidation transactions, I don't think it's a recipe for success. But our opportunity set is really in the independent firms that want to stay independent, and are looking for a partner that needs access to the resources, intellectual capital, scale benefits that we have to offer. We're seeing far fewer competitors that are offering a true hands-off independence model and even fewer with a track record of success, like AMG has. Nearly all of our historical competitors, especially the traditional competitors and anyone who is looking at both traditional and liquid alternatives, they've been either bought or consolidated out or they're selling their businesses. And so while we do see some competition in the illiquid space, most of those are stake buyers. And we've seen inherent conflicts of interest that are becoming more evident to the underlying independent firms as well. So for all those reasons, our competitive position is very, very strong.

And then lastly, we've expanded our offering over time, and we've focused across the size spectrum. We can offer growth capital to a fast-growing firm. Obviously, we offer succession planning to firms like Parnassus that are going through a generational evolution. And so our offering has expanded. And so the demand for this expanded solution set has increased. And we're really the only one who can offer both a strategic and permanent solution while leaving you independent. And I think for all of those reasons, we're in our sweet spot today. And we see elevated new investment activity continuing in the near to intermediate term. And it is one of the best environments that at least I've seen in a decade.

Operator

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

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

Okay. Just following up, Jay, maybe where you just left off there, is there a way to ring fence the absolute size of assets that are in the near- to intermediate-term pipeline? Just trying to get a sense of incremental opportunity to the bottom line. And then related to that, can you talk a little bit about pricing. Last couple of deals have been from our perspective, priced very well. I just want to get a sense on sensitivity around that. And I apologize for the nested questions. But Tom, could you sort of explain why you would expect flat EBITDA sequentially ex the performance fees just given AUM levels, flows and momentum in the business?

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

Let me take the pipeline and maybe just how we structure questions and then, Tom, you can take the forward guidance question. So thanks, Bill. On the pipeline, as I stated earlier, our strategy is very focused on investing in areas of secular growth and that includes illiquids, specialty fixed income, multi-asset, Asia and ESG. And I think you can assume we have all of those in our pipeline. And of course, there's timing associated with the pipeline and then there's the environment, as I mentioned, in terms of getting transactions done, and it takes time. So with all of those necessary caveats, I also mentioned in my prepared remarks that we have seen a majority of our cash flow go to investments that have already been announced. And we see, prospectively, the opportunity to invest a majority of our cash flow in this pipeline that we have going forward, which just means another way of saying we see an elevated opportunity set for us across a diverse group of independent firms that are in areas of secular growth.

The thing that I would also highlight is we're seeing more demographically driven, succession-oriented transactions come to us. So after a number of years, where we've seen fewer succession-driven transactions, we're seeing a greater number today, and that's especially good for AMG because I think our most outstanding quality is being able to structure succession plans and transition plans for firms that want to stay independent and are going through those transitions. So I'm especially excited about that and I do think that, as I mentioned, when we kind of think about this more as capital deployed and EBITDA acquired, we see that driving our results in the near term and over the intermediate term.

On the structure and pricing, over the last couple of years, we refocused our attention on new investments, adding resources to our origination, adding resources to our structuring, and adding resources to our execution. And doing that in a joined-up way culturally at AMG with an ownership mindset and entrepreneurialism that we've always had, but I think we've dusted it off a little bit, let's say. We structure for a range of outcomes, obviously there are lots of business cases that we see. What we're trying to do is find the appropriate balance for the alignment between our shareholders, the partners and ultimately the clients in such a way that we're getting the returns for our shareholders that over long periods of time, will generate shareholder value over just repurchases but also balancing that with what the market is for pricing and frankly, what the right structures are for a partnership that's going to be a permanent partnership.

So when you think about that and you also think about the idea that firms are only selling us a portion of their equity and, in often cases, the lion's share of the value is in the future, then pricing is a little less important in those transactions. It's still important, so don't get me wrong, but it's a little less important. The structure is what's more important and the partnership is what's more important. So I think we get fair, balanced structures. And you're right, because we've oriented ourselves towards areas of secular growth, the transactions have been attractive to us, but that has a lot to do with how fast the businesses are growing.

And then maybe the last thing I would say is as we invest in these areas of secular growth, of course, our mix of our entire business is changing. And I think that leads to higher levels of EBITDA growth over time. Tom, if I could ask you to talk about the forward guidance.

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

Sure. Bill, I'll give you a few numbers just to provide some clarity on Q3 and then put it a bit in context for the full year and going forward. So first of all, in the second quarter, we reported adjusted EBITDA of $227 million, and we noted we had $16 million in performance fees. So that gets you to a base level of $211 million. And then if you look at where we are in terms of Q3 thus far, I said that our market blend is flat at this point. When you look to Q3 guidance, we see core EBITDA going from that $211 million level to a $215 million level. So we do see some growth in there. And then lastly, up to $5 million of performance fees, which gets you to the $215 million to $220 million range. I do think it's worth reiterating here that Q3 is our lowest performance fee quarter of the year, and we have some seasonality there. And Q2, obviously, this year was quite strong.

Maybe if I just kind of take a step back and put it in the context of the full year and going forward, we did also, and Jay has spoken about this, make the investment in Parnassus. Obviously, that's not in the third quarter guidance, but we will see the impact of that in the fourth quarter and then in the full year 2022.

On performance fees, we've reported very strong first half results with excellent performance, in particular, on the liquid alternative side. And looking forward based on where things stand today, we feel like we're in really good shape for the full year there as well.

And then lastly, on repurchases, we've done $290 million through the second quarter, we reiterated our $500 million target for the full year. So I think when you take all of these things together, it gives you a good sense for just how strong 2021 is shaping up and the significant momentum that we have heading into the second half of the year and then heading into 2022.

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

Yes. And one last thing, I think we should comment on, we said this at the beginning of the year, our guidance while we originally considered the need to have capital for new investments, we didn't put any of that in the earnings power of the business because it's too hard to predict the timing. Some of that's coming through now, but we still have more to go. And I think that's always hard to put that into your forward thinking, but we have plenty of capital. In fact, we enhanced our balance sheet in the quarter, freeing up even more capital. So I don't see any real barriers to us continuing to drive growth through new investments.

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*

Maybe shifting gears a little bit, I was hoping to talk about AMG's private market footprint. And really I was hoping you guys can help us frame the forward organic EBITDA growth here for AMG, really maybe trying to break it up between the fundraising outlook across a number of your illiquid alternative Affiliates, against the realization environment, which feels like it continues to be pretty attractive. We obviously saw $9 billion come out this quarter for you guys. So as you think about the growth, whether it's funds or separate accounts, net of realization outlook kind of help us think about how that nets out for EBITDA growth from this part of the market?

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

Yes. Why don't you take that one, Tom.

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

Great. Alex, thanks for your question. A number of things in there. But maybe first, just to hit your question on realizations and provide some clarity. So first, I noted in my prepared remarks that the majority of the performance fees we saw this quarter were driven primarily by the liquid alternative side of the business. There was a little bit that came through in terms of illiquids associated with those realizations, but really not that much. When you think about the realizations that you saw overall, first, I kind of just talked about this in the last question, but obviously, we're not seeing an impact on our earnings power. We continue to see earnings power increasing overall. And the reason for that is those realizations, about two of those were in funds that were well past their investment periods, where management fees had historically already stepped down quite significantly. And the other 1/3 of the realizations we saw this quarter were in co-investment vehicles with low management fees. So in terms of earnings power associated with those realizations, it's really very modest, if any, impact at all.

Stepping back a bit, I think the success that we're seeing in terms of investment outcomes really does speak to the diversity and strength of our private markets businesses overall. With the recent addition of Comvest and OCP Asia, we now have five dedicated private market businesses, including Pantheon, Baring Asia and EIG, and each of these businesses is delivering excellent investment performance and outcomes for our clients.

The businesses are also really continuing to grow into adjacent product areas and expand their growth based on the historical success that they've seen. We've experienced double-digit organic growth in this category over the course of the past couple of years. We expect to see the impact of our private market businesses on organic growth overall at the AMG level continue to increase really in two ways. First, driven by our existing Affiliates as they raise more and larger funds and continue to diversify their businesses and grow their business. And I think distribution is also playing an important part in helping to accelerate and facilitate that growth. And then secondly, as Jay talked about, as we continue to target private markets opportunities through the new investment process. So we absolutely see private markets being a large and increasing part of the overall AMG organic growth story, and I think we're very bullish on that.

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

Yes. Let me add a couple of other thoughts that might be helpful here, Alex. First, we're driving a mix shift at AMG through our capital deployment in both new Affiliates through new investments as well as existing Affiliates through the efforts that I mentioned, whether that's distribution or seed or working with our Affiliates. So we're not taking a passive approach. Our mix is absolutely shifting towards more growth. And I recognize that it's harder to see that at the moment, that you have to do a little more work. But I think Tom has already said it, and if not, I'll say it again, which is that the quant flows that we've been seeing have had and will have almost no impact to our forward earnings power, and that is clear from the guidance that Tom gave. And the distributions that we saw have virtually no impact as well. Any impact they have would be more than offset by existing or expected fundraisings in illiquids. More importantly, though, and this is the thing I really want to make sure I land, what wasn't in our quarter -- and so think about our quarter, we had EBITDA growth of 40% and earnings per share growth of 47%. But there was a lot that wasn't in there from a positive earnings power perspective. We closed OCP at the end of April. There was only a portion of OCP that was in the quarter. We closed on our strategic repositioning at AMG Funds of $4 billion that moved over to our Affiliates. That happened at the end of June. And Parnassus isn't even in the numbers this quarter, which was announced at the very end or at the beginning of the third quarter, and we don't expect it to close until the fourth quarter.

So if you were to pro-forma for all those events, you would have seen our EBITDA closer to 50% growth in our earnings per share, maybe closer to 60%.

Operator

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

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

My question is around flows. And I just want to clarify a few things. So the ex-quants inflows, I just want to clarify that includes the strategic realignment. If so, can we talk about the improvement ex- the realignment in terms of where that's happening? And then also, Tom, you talked about the global equity outflows and some of the specific mandates that I guess were lower fee. But could you talk about the momentum or the traction within that business and how we should think about that on a go-forward basis?

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

Tom, do you want to take that?

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

Yes, Dan, thanks for your question. A lot of different things in there. Let me maybe just kind of go through flows overall. Ex-quant, we have seen trends strengthening over the course of the past few quarters, driven both by existing Affiliates as well as the impact of new investments. I think we see continued momentum as we look forward. On global equities, to hit that part of your question, we saw an increase actually in gross sales, specifically where strong long-term performance and increased client focus are intersecting at Affiliates. On the redemption side, this quarter, we did have some idiosyncratic low fee redemptions as a result of institutional rebalancing. And it was really there were 3 mandates that accounted for about two-thirds of the total ex quant global equity outflows. It's a little unusual to see that kind of chunky activity in any one quarter, so we do think the underlying trends are stronger than what we experienced this quarter. And we continue to like our positioning here over the long term given the excellent investment performance that we have.

We're also seeing very strong performance in U.S. equity strategies, where both gross and net flows continue to increase, particularly in small-cap and value strategies on the retail side. And Jay touched on this a bit, and I have as well, but when you look ahead, we really do see the mix of our business continuing to shift toward areas like private markets, ESG and Asia driven both by momentum at existing Affiliates in key growth areas and our new investment focus on these segments. We're seeing contributions from our new private markets businesses like Comvest and OCP. We're seeing contributions from our new ESG businesses like Boston Common and Parnassus as well, even with that not yet in the numbers. And we're seeing contribution from a relative value fixed income Affiliate like Garda. All of these businesses have excellent performance, strong current flows and are well positioned for the future.

And when you look across our Affiliate base, at illiquids, at wealth and specialty fixed income, ESG, you see the profile of our business shifting more and more towards secular growth areas. And frankly, I think the point that you mentioned around the U.S. wealth business is really important. I think strategically, that's something that's going to set us up very well into the future to continue to deliver our distribution prowess on behalf of our Affiliates, and that is in the numbers that you saw. And maybe just to kind of take it up one level and just add one last point here, organic growth and flows is really just one of the many drivers that we have supporting the future earnings growth of the business. We generate a tremendous amount of capital that we can invest for growth in both new and existing Affiliates to drive our EBITDA higher, and then we've demonstrated an ability to augment that earnings growth with share repurchases. So when you see us posting forty percent plus annualized EBITDA and economic earnings per share growth, that's really being driven by excellent investment performance at our Affiliates, executing against our growth strategy, and we expect to see flows really follow that over time as the shape and growth profile of our business continue to evolve.

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 just did your largest deal in a long time. How should we think about the trade-off between repurchase guidance and new deals, were you to announce another big one? In other words, like at what point of deal volume would we have to start thinking about taking repurchases out of the model? Or is that not a trade-off we really need to worry about anymore given how much higher your cash flow generation is?

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

Tom, do you want to take the balance sheet question?

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

Yes, Patrick, thanks for the question. Maybe I'll just kind of take a step back and walk through capital allocation overall and then try and hit your specific question as well. So look, as you mentioned, first and foremost, we have a tremendous amount of momentum overall in our business. That does translate into a growing free cash flow stream. And combined with the flexibility and strength of our balance sheet, we have the ability to execute on the growing opportunity set that we see in front of us in terms of new investments and other growth investments and return significant excess capital to shareholders, and you've seen us execute on that strategy. We've made six new Affiliate investments, seven Affiliates in total over the course of the past couple of years. And at the same time, we've repurchased nearly twenty percent of our shares outstanding. We're going to continue to remain disciplined. We're going to run all of our capital decisions through a common framework to ensure that we're earning an appropriate risk-adjusted return, and we really do think about this over the long term.

As I mentioned earlier, we continue to believe that new investments are our best and highest use of capital given the ability to create long-term value, the ability to step into immediate earnings and organic growth and then optimize our capital structure and take advantage of our tax structuring as well. I think when you kind of put all of these things together, and Jay mentioned this earlier, this will be the first year since 2016 that we deploy the majority of our capital toward new investments. We do see that trend continuing in the near to intermediate term, given how robust the opportunity set looks. And even with these three new investments, including the sizable one in Parnassus, we remain on track to do $500 million of repurchases. And I think you can expect to continue to see a mix of growth investments and repurchases in the future.

Look, in terms of capacity, we don't see any capacity issues right now in terms of our ability to execute on investing for growth. We generate a tremendous amount of cash, we have a sizable undrawn revolver, we have an ability to structure transactions in a way that makes sense in terms of putting out capital. There are a lot of ways that we can do that, and we have full access to capital markets. And ultimately, we just need to think about the appropriate trade-offs between making those growth investments and returning capital in any given period of time.

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

Yes. And look, I do think that we are going to do both, and it's benefited us to having done both. We do see more capital going towards new investments, but the returns on those new investments are better from our perspective. I'm optimistic that you're going to see us do both in the near term. It kind of dovetails a little bit back to Bill's question earlier. We see a good pipeline in front of us of new investments. We'd like to think that we will allocate a lot of capital to that, and obviously with all the appropriate cautionary statements around that. But even after that, those all come to us unlevered. So we're growing our underlying EBITDA, we have more capacity than we've ever had, our EBITDA run rate is over $1 billion today. So I do think that we can flex into large transactions, and we can flex into multiple transactions while also returning capital.

Operator

Our next question comes from the line of Robert Lee with KBW.

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

Most of my questions have been asked, just two quick ones. If I look at the balance sheet today, the $780 million of cash, can you just update us how much of that is currently available to you versus Affiliate cash that's consolidating on there? That's my first question.

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

Yes, Rob, it's probably about half. I think that's probably a good way to look at it currently.

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

And we're generating something like $170 million, $175 million of after-tax cash a quarter.

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

Yes. And obviously, there was also the hybrid bond transaction that we did was after the quarter closed, so you can think about that $200 million as well.

Operator

Ladies and gentlemen, this 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 and Chief Executive Officer*

Thank you all for joining us this morning. AMG has delivered outstanding results in the first half of 2021, and we see strong momentum as we continue to execute on our strategy. I hope everyone remains safe and healthy, and we look forward to speaking with you next quarter. Thank you.

Operator

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