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AMG - Q1 2019 Affiliated Managers Group Inc Earnings Call

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OVERVIEW:

Co. reported GAAP EPS loss of $3.87 and economic EPS of $3.26.

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PRESENTATION

Operator

Greetings, and welcome to the AMG First Quarter 2019 a 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 - - *Vice President, Investor Relations*

Thank you, for joining AMG to discuss our results for the first 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 to the most directly comparable GAAP financial measures, including a reconciliation of any estimates of the company's economic earnings per share for future periods that are not announced on this call.

As a reminder, we have also include 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 Nate Dalton, Chief Executive Officer; and Jay Horgen, President and Chief Financial Officer.

With that, I'll turn the call over to Nate.

Nathaniel Dalton - *Affiliated Managers Group, Inc. - CEO & Director*

Thanks, Anjali, and good morning, everyone. I'd like to begin by congratulating Jay, and thanking our shareholders, Affiliates, employees and friends for your support over this past year.

I'll cover the evolution of roles in a moment, but first, in terms of the quarter, AMG reported economic earnings per share of $3.26. Our results for the quarter were negatively impacted by the significant equity market decline in the fourth quarter of last year. Leading to both a reduced starting AUM for the quarter and also lower performance fee generation in the quarter. As beta sensitive products needed to make up their high watermark. During the first quarter, however, the beta really drove AUM higher, recovering that lost ground for a subset of our performance fee product, as our Affiliates continue to build on those strong long-term performance track records across many areas.

Turning to flows, we had net outflows of $7.4 billion in the first quarter, a significant improvement from the previous quarter. Flows were driven by expected continued softness in our liquid alternatives and client equity businesses, including $3.3 billion from 2 client redemptions, neither of which was related to the Affiliates' performance.

In addition, during the quarter we continued to make progress executing our new investment strategy and, as you saw in our separate release this morning, we were very pleased to announce the addition of Garda Capital Partners to our group of outstanding Affiliates.

Looking ahead, we are very confident in our long-term growth prospect because, first, we have actively positioned our business to focus on the attractive growth opportunities in alternative and distinctive equities.

Second, these are areas where boutiques have a proven ability to outperform, and where our Affiliates have exceptional long-term performance records across a broad range of products. Third, we are increasingly effective at bringing our Affiliates diverse, distinctive, high-quality return streams into a range of channels and geographies using our Affiliates' distribution capabilities, AMG's global distribution efforts and, more recently, through strategic relationships with capital allocators and intermediaries.

Fourth, we have a complementary growth engine and new investments, where we can add immediately salable products through accretive investments in excellent new Affiliates like Garda. And fifth, we have a very strong balance sheet with the flexibility to advance our new investments pipeline, while also continuing to return capital to shareholders.

Now let me spend a minute on a couple of these key drivers. First, the positioning of our business. Over the last decade, we have actively diversified our business across a range of growth opportunities. Our Affiliates have high-quality differentiated return streams across a broad set of distinctive equity and alternative products, which have attractive secular growth characteristics. Their leveraging theme, such as the barbelling of client portfolios and the erosion of home country bias. In addition, these are areas where active asset managers and especially boutiques have the ability to outperform.

Now, in terms of specific product areas, our alternatives business now has approximately $300 billion in assets under management, making AMG one of the largest alternative managers in the world with one of the broadest, the most diverse sets of liquid and illiquid alternative strategies managed by leading boutique investors.

In addition, our substantial exposure to uncorrelated alternative strategies should increase the stability, the resilience of our business across the market cycles, while most importantly, proving attractive to clients. So increase in the long-term organic growth potential of our business. While some of our liquid alternative products are going through a challenging period, others like relative value, fixed income and global risk premia are doing well. And we're building on an increasingly large scale illiquid business across private equity, infrastructure, real assets and credit.

We've also built out a very diverse set of distinctive global equity strategies across both developed and emerging markets equities. Our Affiliates global equities products have excellent long-term investment performance records with over 65% of our global equities ahead of benchmarks for the last 5 years.

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Moreover, as leading clients worldwide and the intermediaries who serve them, are consolidating their relationships with external managers and looking for more efficient relationships or even partnerships with a smaller number of investment management firms, AMG and our unique model are beginning to capitalize on this trend. As we can bring to bear the largest collection of independently managed distinctive return streams in the world to meet client needs.

As we discussed last quarter, we've been making progress in formalizing some of these relationships, such as our strategic relationship with Nordea Asset Management. While this is a relatively new initiative for AMG, we're making good progress towards launching our first wave of products this year. Additionally, this quarter we entered into our second strategic partnership, this time with an investment solutions provider focused on slightly different channels and geographies. As of Nordea, together we will now work towards bringing our Affiliates distinctive return streams to their client base.

Turning next to the progress we're making investing in additional high-quality Affiliates. As I noted earlier, today we are pleased to announce our investment in Garda Capital Partners, a leading alternative investment manager specializing in fixed income relative value strategies with approximately $4 billion in assets under management.

Well known for its differentiated strategy and a highly attractive asset class, distinctive return streams and outstanding long-term investment track record across market cycles. Garda serves a diversified set of sophisticated institutional clients around the world. We believe, they have excellent long-term growth prospects and are very excited to partner with Jeff Drobny and his team.

Now, in addition to executing our investment in Garda, we continue to make very good progress actively developing our proprietary relationships with leading boutiques. AMG's equity ownership succession solution is uniquely attractive to asset management boutiques that value their independence, want a permanent partner and also access to the scale distribution platforms we have built.

Now before I turn it over to Jay, I've been working on AMG for roughly a quarter century and this is something approaching 70 earning calls for me. So I'd like to take a minute to talk about where we are today against the arc of that history. While there are certainly some short-term challenges, today our business is stronger and more diverse than ever, and we've more ways to drive growth than ever before. We benefit from the compounding of the asset classes we've invested in, asset classes where over time blended, compounded at a high single-digit rate. In addition, we benefit from the excess return generated by our Affiliates' products, which increases the rate at which the asset classes compound. Add to that, growth from net sales, from existing and new products, geographies and channels, as well as accretive investments in additional high-quality Affiliates, which can add immediately to our earnings growth and bring salable products, which will not only further increase our growth rate from flows but also increase in client engagement, which is good for the growth rate of all Affiliates.

Then finally, we increase the growth rate our shareholders experience through other capital allocation decisions we make. And this is basically the strategy we used to grow from a start-up with an idea to become the permanent institutional partner of choice to the best boutiques in the world, and we've executed on this idea over the last 25 years across multiple market cycles.

Beyond all of that, I'm incredibly confident in our ability to execute and continue to grow our business and generate outstanding long-term shareholder value because of the great group of talented professionals at AMG, this includes both people who have grown up at AMG, but also the teammates who've joined us over the last several years as we evolve the business. The level of talent and dedication is at an all-time high.

Now turning to the evolution of roles. As you saw on our release this morning, over the past year, we continue to execute on our long-term succession plan. And today, we announced that Jay will succeed me as CEO.

From the time Sean, and I and others began building AMG from a true start-up through today, AMG has been an important part of my life, this is not changing. I plan to remain on the company's Board of Directors, and serve as an adviser to Jay and Sean and the rest of the senior team, focusing my time on relationships with our Affiliate partners and in the industry, as well as the strategic evolution of AMG.

We've all have maintained short and medium-term succession plans for AMG, as we do with our Affiliates. Jay has been, for well over a decade now, an important part, really a critical part of that plan. We thought Sean would serve as CEO for a number of years as we manage the evolution of our team, and over that time, Jay and an emerging group of the next generation of leaders would evolve into their roles. Of course, reality unfolded differently than we expected and when Sean was diagnosed with ALS, we implemented our contingency plan, and roles evolved much faster. At that time, I agreed to serve as CEO, while Sean continues to serve as our Executive Chairman. We've all worked hard together since that day, Sean, myself, many others, but no one more than Jay to accelerate achieving the milestones necessary to get the evolving team in place.

I am very pleased with the progress we've made, and I'm happy to report that we've achieved those milestones, which allows us to be where we are today. And to be clear, while Jay has executed on a number of those milestones himself, the whole senior team has really stepped up into extended roles, and of course, Tom Wojcik joining us as CFO was a critical piece. I was and am honored to serve as CEO for as long as necessary for all aspects of the long-term succession plan to be in place and sitting here day, I look forward to working with Sean and Jay and his team in my new role as an adviser, and helping them as they lead AMG over the decades to come.

Now, before I turn the call over to Jay, I want to talk about him for a minute and why I'm so confident that he is the right person to lead AMG forward at this moment. Of course, it's his experience at AMG over the last dozen years running and overseeing various parts of our business from new investments to finance and distribution as well as his experience as one of AMG's closest advisers over the decade before he joined. But it's more than that, and I'll speak personally here for a minute. Jay has all of the traits needed to excel as AMG's CEO. I've seen these demonstrated everyday over many years. He has the intellect and curiosity to lead AMG's evolution in a very dynamic and rapidly evolving industry, he has the drive and passion, not just for the AMG we've all built together but also for the role of CEO, and I have fervently believe that he is the right person to lead the AMG management team forward over at least the next decade ahead. With that, I congratulate you Jay in your new role, and let me turn to you one last time to talk more about the quarter.

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

Thank you, Nate. I'm honored to have the opportunity to lead AMG as our next CEO, and I look forward to working with you in your ongoing role. I also want to take a moment to recognize Nate for the countless contributions he's made to the firm over his 25 years. As AMG has grown from just an idea into a $775 billion global asset manager. From a personal perspective, I'm enormously grateful to both Nate and Sean for their support, guidance and partnership over the past 12 years, and especially during this past year as my responsibilities have evolved.

In my new role, I look forward to continuing to work closely with our board and Sean as Executive Chairman as well as the rest of the senior management team, most of whom I've had the pleasure of working with for more than a decade and many of whom I recruited at AMG. This team shares with me and with Sean and Nate the entrepreneurial spirit and partnership orientation that has always defined AMG's culture, and I am confident in our ability to create significant shareholder value together in the years ahead.

Now, there are number of themes I'll develop further, but let me first go to the details of the quarter.

Turning to our flows by asset class and starting with alternatives, which account for 38% of our AUM, we reported outflows of $2.9 billion driven by our liquid alternative strategies and partially offset by positive contributions from our illiquid product set. The outflows in this category were largely driven by a single client redemption, which was not performance related. Our illiquids, which include strategies, such as global and regional private equity, co-investments, credit, real assets, infrastructure and real estate-generated another solid level of fundings in the quarter, and we continue to see a steadily growing opportunity in illiquids as our Affiliates build further on existing and new product capabilities.

AMG's performance in this category is very strong with 91% of our recent vintages outperforming industry benchmarks on an IRR basis. Our liquid alternatives category comprises our multi-strategy, systematic diversified, fixed income and equity-relative value strategies. While our long-term investment performance in this category remain strong with 69% of our assets under management outperforming their benchmark over a 5-year period, more recent performance in this area has been challenged, resulting in a decline in assets outperforming the benchmark and pressure on recent net flows. However, we believe strongly that these strategies play an important role on client portfolios and with our Affiliates' broad array of high-quality liquid alternative strategies, we expect this category to be a meaningful positive contributor to our long-term organic growth profile over time.

Now turning to equities, which account for 49% of our AUM. In the global equities category, we saw net outflows of $3.4 billion in the quarter, driven primarily by quantitative global equity products, a meaningful portion of which was attributable to a partial redemption from a large pension client, which was also unrelated to performance. AMG continues to generate strong long-term performance in this category with 66% of our assets under management ahead of benchmark over a 5-year period, reflecting improving performance in the global equities category generally, and particularly in our emerging market product.

Our Affiliates in this category include some of the industry-leading, global and emerging market managers, such as Genesis, Harding Loevner, Tweedy, Browne and Veritas, all of which continue to have excellent competitive positioning.

In U.S. equities, we reported net outflows of $1.4 billion, a meaningful improvement over the fourth quarter. Given our value bias in this category, performance continues to be challenged with 38% of our strategies outperforming benchmarks on a 5-year basis. That said, volatility in the fourth quarter and early in the first quarter has led to an uptick in client demand resulting from the relative outperformance generated by our high-quality, fundamental equity managers in this period. We believe that clients will continue to seek these strategies, especially value-oriented products given the risk-adjusted benefits of holding these strategies through a full market cycle.

Turning to the multi-asset and fixed income category, which accounts for 13% of our AUM and encompasses multi-asset and balanced mandates within our wealth management Affiliates as well as a number of speciality fixed income in multi-asset products. Here we posted $300 million in net inflows, primarily driven by our wealth management business as well as our systematic fixed income products, which continue to generate good flow momentum.

Now turning to our financials. As you saw on the release, economic earnings per share decreased 17% to $3.26 for the first quarter, including $0.17 of net performance fees. On a GAAP basis, we reported an earnings per share loss of $3.87, reflecting the reduction in carrying value of BlueMountain. For the first quarter, aggregate fees decreased 24% to $1.3 billion from a year ago and the ratio of aggregate fees to average assets under management declined year-over-year from 79 basis points to 65 basis points, in each case primarily driven by lower performance fees.

Adjusted EBITDA decreased 25% to $215.6 million from a year ago due to a number of factors, including the timing and impact of negative markets at the very end of 2018, which resulted in lower performance fees and investment and other income at certain Affiliates where we report on a one-quarter lag.

In addition, we saw a lower contribution from certain of our equity method Affiliates, which impacted EBITDA. It is worth noting that while the reduction of BlueMountain's carrying value during the quarter did not directly impact EBITDA given the noncash nature of the expense, our first quarter EBITDA levels reflect the cost of BlueMountain's repositioning, which we expect to continue for the next couple of quarters. Relative to adjusted EBITDA, the smaller year-over-year declines in economic net income of 21% and economic earnings per share of 17% reflect lower taxes and lower year-over-year share count due to repurchase activity in the case of economic earnings per share.

Turning to more specific modeling items. For the first quarter, the ratio of adjusted EBITDA to average assets under management was 11.2 basis points. Excluding performance fees, this ratio was 10.6 basis points, which was negatively impacted by the factors I previously mentioned.

In the second quarter, we expect adjusted EBITDA to average assets under management to be approximately 10.8 basis points reflecting seasonally low performance fees of $0.03 to $0.05 per share and the continued impact from BlueMountain's repositioning. This ratio should improve in the second half of 2019 following the closing of Garda, and as we see improvement in our equity method Affiliate contribution.

Our share of interest expense was $18.2 million for the first quarter. In the second quarter, we expect our share of interest expense to increase to approximately $20 million reflecting the full impact of our new Junior Subordinated bond. Our share of reported amortization and impairments was $459.8 million for the first quarter, including $438.2 million from Affiliates accounted for under the equity method. As you saw in the release, this included a $415 million noncash expense related to the revaluation of BlueMountain.

Looking ahead to the second quarter, we expect our share of reported amortization and impairments to be approximately $48 million. Turning to taxes, with regard to our tax rates in the first quarter, our effective GAAP tax was 24.4%, given the impact of the noncash expense, our cash tax rate was negative. For modeling purposes, we expect our GAAP and cash tax rates to be approximately 26% and 18%, respectively. Intangible related deferred taxes were negative $93.8 million in the first quarter, which was impacted by the noncash item. For the second quarter, we expect intangible related deferred taxes to be approximately $11 million.

Other economic items were $3.8 million for the first quarter. For modeling purposes, we expect other economic items to be approximately $1 million. Our adjusted weighted average share count for the first quarter was 51.9 million, and we expect it to be approximately 51.1 million for the second quarter, reflecting a modest level of share repurchases.

Turning to our balance sheet, during the first quarter, we paid a $0.32 per share dividend and repurchased $91 million in shares. In addition, we continue to position our balance sheet, including the issuance of a 40-year, $300 million bond, which extended duration of our debt to approximately 15 years and increased our capacity and flexibility to be able to capitalize on our new investment pipeline.

Speaking about new investments more broadly, as Nate said, we are excited about our new partnership with Garda, a fixed income relative value specialist among the premier firms in the state. With its very strong near and long-term performance track record, together with its positive flow momentum, Garda will be an immediately accretive transaction to our financial results upon closing early in the third quarter.

We expect economic earnings per share, accretion from this transaction of approximately $0.20 on a full-year basis and expect to realize about half of that contribution to our financial results in calendar year 2019 given the mid-year closing. There is strong alignment between Garda's objectives and AMG's partnership approach. The firm's cohesive management team, which has worked together since 1999 has a strong entrepreneurial culture that they want to preserve and a goal to build an enduring multigenerational business.

Stepping back, as Nate and Sean recognize, from the very beginning, all independent firms will inevitably face the need for succession-oriented partnership solution, and given AMG's competitive position along with the proprietary relationships we have been building over the past 2 decades, we have a unique opportunity to selectively invest in the highest quality firms, such as Garda, and generate meaningful earnings growth over the long term.

In addition to Garda, we continue to see both good progress in our near-term pipeline as well as continued dialogue with longer term prospects. As always, we remain disciplined on both quality and pricing and our current pipeline reflects these attributes. Taken together, this may lead to more modest share repurchases in the second quarter as we see our pipeline develop.

And finally looking ahead, I am excited about AMG's future prospects as we continue to capitalize on our preeminent position as the partner of choice to the most highly regarded firms globally. The evolution of the asset management industry presents opportunities for us. Client appetite for truly differentiated, independently managed return streams is enduring and having invested in an outstanding group of Affiliate partners over the past 25 years, AMG now has the world's most diverse array of independently managed differentiated strategy. A successful track record of offering this broad product set to clients globally in an efficient way. An ability to add new capabilities through product development initiatives both at AMG and at our Affiliates as well as through our new investments strategy.

We also have deep experience and expertise in identifying high-quality independent growing businesses, structuring permanent partnerships with these firms through a unique approach that preserves the essential elements of their ongoing success, aligning interest between AMG, our Affiliates and their clients, and building strong, enduring Affiliate relationships over multiple generations.

As we focus on these competitive strengths consistent with our core principles of entrepreneurialism, alignment and long-term orientation, I'm confident that we will capitalize on the opportunities before us to broaden the scale, diversity and earnings power of our business and generate long-term shareholder value.

Now we're happy to answer your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Dan Fannon from Jefferies.

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

I guess, first, Nate, wish you well on your new role. And Jay, congrats on your expanded role at the firm. I guess, wanted to talk broadly about alternatives. If you could elaborate on BlueMountain and what's happening there? And if we think in kind of over the kind of next 12 months, the flow outlook for this category, which has been such a big contributor to your firm over the last several years with performance at some of the products we can see at AQR still being challenged, as well as some of the changes you mentioned at BlueMountain. How we should think about the liquid component of this business over that time period?

Nathaniel Dalton - *Affiliated Managers Group, Inc. - CEO & Director*

Perfect. So this is Nate. Maybe I'll start on BlueMountain and then, I think, Jay maybe will pick the other part of that question. So look, on BlueMountain specifically, I'd say, look fundamentally, BlueMountain had some real core strengths, something about like their credit and volatility history. And over the last couple of years, they were diversifying that business along with some industry trends and building out infrastructure, but recent performance and especially the first quarter's performance was really challenging. And that was an impact not just on kind of performance fees but also on some of the track records, which has the impact, as you'd expect, on both clients and then also on kind of the forward outlook for some of the business lines. And so the current client base, those track records and some of the products and capabilities, makes it kind of not feasible to sustain that existing infrastructure kind of exactly the way it is. So, yes, this is really, I think, for them an issue of -- and we agree, an issue of focusing on those really outstanding core strengths. I think may be on the -- more generally, why we're strong believers may be turn to Jay.

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

Yes. Thanks, Dan. So starting with the quarter, the quarter, I think, we had expected the flows to be about where they are. We did have some lumpy outflows from 2 different client transitions unrelated to performance, but your question to the liquid alts, in particular. I do think that we have a really diverse, a great set of products there. We do think that, long-term, clients need these products in their portfolio. They add those diversity and -- to the correlation aspects of the portfolio. So long term demand trends in place. I think we need to see our way through the, sort of, near-term performance challenges. There are bright spots and there are certainly some products that are doing quite well. And so we do think that the arc of that is to return to long-term positive flows. I would take the opportunity to highlight a couple of other important elements of the, sort of, flow profile that are quite strong. Obviously, the continued illiquid private equity fundings continue, we still see extensions and innovation coming from our illiquid managers, and we see that long-term growth profile enduring. We've also had an uptick in demand for our U.S. fundamental equity managers, especially in the fourth quarter and the first part of this past quarter where volatility picked up and the value of those managers in the portfolio became clear. So we did see an uptick in demand there. We had improving performance in emerging markets. We have improving performance generally in global equities. These all give us reason to be optimistic about the medium and long-term flow profile.

Operator

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

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

Congrats, Jay. I want to ask about Garda. And so maybe you could just talk about Garda, how it fits into the investment philosophy a little bit more? I know it's reasonably small at this point, but how does it fit in regarding your comments previously around more entrepreneurial management teams and maybe talk about any ambitions they have to move beyond the fixed income relative value?

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

Yes. Thanks, Chris. So Garda, first, as you heard in both Nate and my prepared remarks, we're very excited to welcome Garda. Jeff Drobny and the entire management team there. We think that this partnership is exactly what we are looking for. We remain very focused on both quality and alignment, as well as making sure we're disciplined on pricing, and I think this new partnership has -- reflects all of those elements of what we're looking for. Garda is a great firm, high-quality relative value, fixed income specialist, exceptional track record for over 15 years, very low correlation to traditional indices. As you said, the business is small, but not that small, actually $4 billion with really strong flow momentum and a capacity to grow. It's highly rated. We've seen substantial appetite from institutions for fixed income relative value. Importantly, I think, the firm has a strong entrepreneurial and investment-centric culture. The long tenured management team is committed to building an enduring franchise over multiple generations. I also would just note that this opportunity is unique for us. The business was started in 1999, and for 15 years, it was within Cargill. Therefore, not open to external capital as the business came out of Cargill, we've seen substantial growth in clients, and this is an example of the benefits of our proprietary calling effort allowed us to partner with Garda at this point in its growth cycle.

And then second on pricing, as you heard me say, we do see $0.20 of run rate accretion or 2019 accretion and growing half of that in -- sorry, 2020, half of that in 2019 or about $0.10 for the back half of this year. It is a meaningful EBITDA contribution, if you work your way through the math, you'll find that that's in the neighborhood of $15 million of EBITDA. The partnership is structured as a minority interest revenue share and it will go through kind of our equity method line item. The deal from a pricing perspective, is in our 8 to 10x EBITDA range but really at the low end of that. So I think here, again, both on quality, pricing and alignment, we're very excited about this partnership.

Operator

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

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

First, and Jay, just congrats on the new role, well deserved.

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

Thanks, Craig.

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

So my question is actually on the new investment pipeline, a follow up to the last one. But if you look at what is inside the pipeline today is it mostly smaller businesses like Garda? Or does it also have some larger businesses, potentially multi-manager platforms that could provide larger EPS accretion opportunities for AMG shareholders?

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

Yes. So, I think, as you heard me say, Craig, that we're quite optimistic about the progress we're making on our near-term pipeline. Obviously, we were in the relationship building business over the long term. We've had good dialogue more broadly. Let me backup then I'll come back to your specific question. We see the M&A market today as being pretty active. I think, we've seen lots of different types of transactions in the market, including both larger transactions and transactions like Garda. And specifically on some of the larger consolidating transactions. In general, we do think that those are difficult to execute, particularly those that are focused predominately on cost savings. Of course, that is not what we do. We have a unique business model that puts us in the position where we can, through the successful execution of our new investment strategy, obtain the benefits of scale that accrue in a strategic transaction without having to integrate. I think, that's really important aspect of our ability to scale whether, it's a series of midsized firms or larger firms, we have the ability to scale without having to go through a year or 2 integration project, where, at the end of it, it's unclear exactly how much you will ultimately save. So we're very excited by our ability to grow through new investments, whether they're midsized or larger firms. I would also say that the transition of or succession planning of firms is inevitable, as you heard me say, that's what Sean and Nate identified 25 years ago, and we're still capitalizing on the demographic trends that do occur in these firms. We are very good at partnerships at AMG, both the organizational aspects of it as well as and the alignment aspects of it and the technical aspects of it. And I think, that is going to be a reason why we're going to continue to be able to execute on the market opportunity as succession planning needs surface at managers.

In terms of the size and the complexion of our current pipeline, look, we have good diversity in our pipeline. I would describe it generally as global, which includes emerging and alternative firms in that pipeline. It does range from midsize to larger, I do think that the bar on larger transactions is higher given the importance of making sure that you've priced it right. And I would also just note that on pricing, generally, in the private markets, we're seeing finally pricing come down in the private markets. It was a lag, I guess, relative to the public markets, but we do think that we are able to execute on the lower half of our sort of general pricing range of 8 to 10x in this market. So we're very excited about the opportunity ahead of us, and we feel like we will see more new investment activity over the near and medium term.

Operator

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

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

Congratulations, everybody. So just staying on the theme of big picture, Jay, just as you sort of see the evolution of the asset management business. Do you see any evolution of AMG's strategy to sort of realign in any way to potentially accelerate organic growth beyond acquisition-related opportunities?

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

Yes. Thanks, Bill. Look, our industry is evolving. We acknowledge it, we embrace it. It presents opportunities for us and capitalizing effectively on these opportunities will require us to focus on our strengths. First and foremost, we want to be the partner of choice to the most highly regarded independent firms globally. We think, we've accomplished that over our 25-year history and we're going to continue to do that. I think, as you know, maybe everyone on the phone knows that Sean, Nate and I evolved and united in our entrepreneurial spirit in this way, and our focused on excellent execution in order to grow shareholder value, this will not change. The elements of our strategy will continue on the highest level building strong relationships with our Affiliates and maintain them across generations. We want to enhance our Affiliates' growth prospects and leverage scale in efficient ways. We want to find new Affiliates, new prospects that are not only earnings accretive, but also business accretive and adding new products and new channels and new geographies as we do. That powerful combination should create shareholder value. And as we said, or as I said a moment ago, we see, in our current pipeline, the ability to make new investments. We do have deep experience in these partnerships. We also have built excellent relationships in our industry. And today, we have the most diverse array of return streams by independently managed asset managers, independently owned firms. And so when you look forward, you say -- with that, portfolio, pipeline, relationships and new investments, the world's most diverse array of independently managed differentiated strategies and reputation of being an excellent partner and finally a team that has the right orientation, skill set, I think, we will execute, as we always have, on the forward prospects, notwithstanding the evolving market we will evolve with it.

Operator

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

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

Given the market move quarter to date, is it fair to say that your view of where your year end performance could come out -- has come up quite a bit in terms of where you are versus high watermarks?

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

Thanks, Patrick. Yes. So -- well, let me just take a step back. As of last Friday, our market blend was up about 2% on the [quarter] (corrected by the company after the call), which is kind of across all of our exposures. And that profile, I'd say, is consistent with our normal market convention. So then answer to your specific question, I would say, there really hasn't been a change in our view of the sort of the sort of longer term range that we gave out on performance fees, mainly because it's still early in the year and the progression is consistent with what we would expect for our model convention. That said, we have regained quite a bit of ground on the high watermarks in some cases, we've gone over high watermarks. And so we are making good progress along the way to that goal. You would note that we do have seasonality in that performance fee opportunity, we experienced $0.17 in this quarter, and we have highlighted kind of guidance of $0.03 to $0.05 in the second quarter and then it typically goes down to a couple of pennies, call it $0.01 to $0.03 in the third quarter. So it's really the fourth quarter where we see the bulk of our performance fee opportunity seasonally. And I think when you pull that all together, we're still in that $0.50 to $1.50 range on top of the performance fees that we'll experience in the first 3 quarters. So that is consistent. But I would say, on balance, we feel good about the performance fee opportunity because of the recent uptick in markets. And then the last thing I would say is with the addition of Garda in the second half of the year, both our ratios of EBITDA to average assets under management but also our cash flows and the opportunity to earn performance fees have all been increased by the addition of Garda.

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 a quick question around the AUM disclosure you put out. If you look at the other bucket within the total roll forward, that seems like it's becoming a bigger and negative number over the last couple of quarters, I think it was over $6 billion this quarter. Can you expand a little beyond what's in the footnote? Just kind of where it's coming from? Any sort of EBITDA impact that is associated with that, that'd be helpful.

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

Yes. It's a pretty simple answer. The -- in the quarter, at the very beginning of the quarter, I think, we probably made the announcement January, and I think we talked about it briefly on the last call. Clarfeld, we sold Clarfeld in a transaction. And so it's really just a removal of their AUM coming out of our table. We did remove -- we did generate a small profit on Clarfeld, but as it comes out of our financials, it has to come out of our AUM, and that's really the point on other -- and I'll just say more generally on the, say, the distribution, the realization, that was a normal quarter for us. I think this is -- we've all been reporting this way for about a year, but this seems like a normal quarter on that basis as well.

Operator

Our next question comes from the line Brian Bedell with Deutsche Bank.

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

Congrats Jay as well. Well deserved. Maybe just to ask you another one on the outlook for deals. Obviously, you guys as you've been making new investments over the long time frame, fixed income has been one area where you really haven't done a ton relative to some other alternatives. So maybe Jay, relative to the past do you have a sort of a view over the next, say, 5-plus years that fixed income might become a bigger part of that deal activity? And then obviously if you can comment on what you view as your capacity for deals over the next couple of years? And would you prioritize that over stock buyback given the deal pipeline that you're currently seeing?

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

Okay. Thanks, Brian. So you asked a few things in there, so I'll see if I can take them off, hopefully I will remember them. On fixed income generally, I would say that we are -- I think we're interested in fixed income. We like the differentiated strategies within fixed income. The kind of core kind of bond U.S. and global. The first thing I would note is there's very few independently sort of boutique still management-owned businesses out there. There are few and, I think, we would have an interest in the highest quality of those firms. So you just don't see them exist, partly because it is a tremendous scale business and a number of them are owned by large kind of conglomerate type firms or scaled organizations. I would also say that that's a tougher business and it continues to be a tough business. So we like differentiated fixed income strategies, and we will look to make new investments in those types of businesses. As it relates to, in general, what we're looking for in new investments, look, we want to stay close to what clients are looking for in their portfolios long term. We -- I think we've always been good at using our information both from our existing Affiliates as well as from our global distribution, staying close to clients and understanding long-term demand trends. And so that is why we're interested in differentiated fixed income, and we're different -- and we're interested in a number of other businesses that are involved in kind of long-term cyclical trends within client portfolios. So that is our kind of forward look on how we think about new investments and where we are prospecting.

As it relates to capacity, look, we did some balance sheet positioning, I appreciate the question because I don't think we highlighted it enough in the quarter. We did a $300 million 40-year bond that allows us to think long term about our new investment pipeline, but it also gave us additional capacity as we pay down our revolver, which is a significant revolver, over $1.2 billion revolver that we can execute new investments, and therefore, we have lots and lots of capacity to do new investment.

The other thing I would say is in the quarter, we did repurchase $91 million in shares. As I said, we're going to see how this pipeline develops. We would imagine doing a more modest amount of repurchases in this quarter. Although, that will be dependent upon the timing of our near-term pipeline as well as just market conditions. So we'll continue to think about that. As far as the priority goes, yes, our first priority is to invest in new businesses and new initiatives at our Affiliates that will generate long-term value for our shareholders. But along the way, we will maintain a capital allocation model that returns capital to shareholders when we are not investing in those initiatives. Of course, making sure that we are appropriately balancing the risks of our balance sheet against the forward opportunity.

Operator

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

Shaun Francis Calnan - *BofA Merrill Lynch, Research Division - Associate*

This is actually Shaun on for Mike. Just given the tougher organic growth trend to start the year, do you guys still expect the flow picture to improve and hit that 2% organic growth by the end of 2019?

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

So yes, let me take that, and if Nate you want to add to this, please do.

We -- as we described in our prepared remarks, and I said earlier, we do see the long-term trends in place to be at that 2% level over the medium to long term. Elements of how we get there and the timing of it will, in part, depend on performance in liquid alts, I think, as it relates to the other aspects of our business, illiquids, global equities, emerging markets and U.S. equities, we are seeing uptick in both performance, and in some cases, demand for those products. I think in liquid alts we are moving through a period of near-term performance challenges. And as we move through that period, we need to see those stabilize before, I think, we can feel confident that the timing is in front of us with respect to when the 2% occurs. That said, look, there's quite a bit of good things going on underlying in our business. As I mentioned, these other upticks in demand really could outweigh any of the performance challenges we're having in liquid alt. So therefore, it's hard to know exactly the timing of that, but we do expect over the medium term though to see that 2% number being a reasonable growth rate for our business.

Operator

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

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

Congratulations, Jay, and best of luck, Nate on whatever comes next for you. The -- I guess my first question is, so if we think of the outflows this quarter and kind of what -- may be what seems to be on track over the near term, is the -- just trying to get a feel of the economic impact of the flows is reflective of, kind of, the gross outflows we're seeing, and if organic growth was, say, minus 1% in this quarter, is that a reasonable proxy for, kind of, EBITDA impact?

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

So good question. I would actually -- as you have even written on. There is a bit of a disconnect between the metric of flows and EBITDA. I would say, for us, it's particularly challenging because it depends on not only what assets are raised, but the ownership of the underlying Affiliates. So that's really the equation. I think what I would point you to is the EBITDA to average AUM, I made some comments around that in my prepared remarks. It has been impacted recently for us by both performance fees and some mix shift, but also the cost of repositioning BlueMountain. When you look forward this year, we do see that, that ratio, which is bit of a profitability ratio for us improving, it's improving because we see that those costs abate, we see a return of performance fees and we see the addition of Garda. So all of those things should lead to an increasing, kind of, ratio there. That is a ratio to track for us. It has come down over time, but it's come down as much from just the mix of the overall business and that can easily go back the other way and very well could in the near term.

Operator

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

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

I just wanted to confirm that the BlueMountain repositioning is just the $1 billion sleeve the press has mentioned or is there something broader going on?

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

Yes. So look, I think, it's -- business is meeting the market opportunity and, therefore, that is one element of repositioning. I do think that all of the -- the cost of that is in our first quarter EBITDA and is in our forward outlook. But one thing I would say is that none of that had anything to do with the actual -- I should say that the impact on a current bases in our financial statement. The noncash charge is really a historical look at the purchase price that we paid and that is just being revalued. I would also note that we've had re-valuation events such as ValueAct, where we've seen significant growth thereafter, and therefore, you can't write these businesses up, GAAP does not allow you to write these businesses up. And so there is some asymmetry to what's going on here other than the experience that we have in our current EBITDA, the write-down itself is not -- does not tell the future and the asymmetry is really you can't recognize the gain, GAAP only requires you to write down assets. The other thing just -- worth noting is we have a portfolio of investment across lots of different strategies. The -- sum of all those investments are significantly above their carrying value. Frankly, the sumof all of our equity methods are significantly above the carrying value. And again, you can't offset any portfolio effect from any one investment.

Operator

Our next question is a follow up from the line of Robert Lee from KBW.

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

This is a simple real modeling question, Jay, but did you -- I think, I may have missed this, you mentioned the performance fee contribution in the quarter.

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

Yes. It was $0.17 in the quarter, that is similar to the fourth quarter, and it's down from the first quarter. So when you look at it year-over-year, it's down. And that's mainly because, if you remember, we have a one-quarter lag in a number of Affiliates to generate performance fees. And so if you think about what happened in the fourth quarter, those Affiliates were impacted by that one-quarter lag, which we're just now reporting in the quarter. So that's really the reason for the drop off from the first quarter of last year to this year.

Operator

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

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

I just wanted to go back to your comment in the prepared remarks about a new distribution relationship on the investment solutions provider. Just any detail you can provide there on how big this company is? What strategies you think will fit and timing?

Nathaniel Dalton - *Affiliated Managers Group, Inc. - CEO & Director*

Sure. So this is Nate. Just to level set for a second. So the easiest kind of framework to think about and the trajectory is the way we've talked about in Nordea. Starting I guess a couple of quarters ago, which is, if you sort of step back, pick up on what Jay said, we have the world's most diverse array of independent and largest array of independently managed return streams. And so the challenge is how do you -- and the opportunity is how do you take that set of return streams and efficiently get it into the right client portfolios, right? And it's not just necessarily even just product, it's return streams. And so what we're doing in each of these settings as we're finding what we believe our partnership really understand that we think of them as channel, partnership really understand that. Nordea was the first example. We've been building out the infrastructure, and there's still little bit of work to do but building out the infrastructure to efficiently get our Affiliates return streams into their portfolios and to efficiently understand the dynamics of their client base and the demand trends. So that's we've done in Nordea. And I think as we said, we're -- in the back half of this year, we're going to begin launching products together, it's going through the regulatory process right now. Launching products together, bringing our Affiliates' manufacturing together with their packaging and distribution into the places, channels and geographies where they're exceptionally strong, right? So that's kind of that relationship. This is, as we alluded to in our prepared remarks, different channels, different geographies, so not kind of an overlapping footprint at all. And also more institutional and retail when I think about channel.

So we're going through that same process of -- we have conceptual agreement, we're working through which of our Affiliates' products, which of our Affiliates' return streams that may not even be express those products are particularly appropriate for the portfolios they're building and are going to be able to be used efficiently by them, we're beginning to work on the infrastructure to get information about the demand characteristics that they see in their client base. So starting that kind of joint product development almost concept together. And there are a few other places with this one, we're not able to name it, but this one where we're be able to work on some things together. So it's really -- I'll go back to a point Jay made, which is -- it's really focused on the things that we have that are real competitive strengths. And one is clearly, we have this array of independently managed, really extraordinary return streams and how do we get those efficiently into client portfolios. And one last thing I'll say, and this is -- we really do now have 3 ways that we're doing this, one is, each of our Affiliates have their distribution, we with AMG have our global distribution, and we're now building these sort of channel partnerships to get assets raised, again, efficiently. And these are all very complementary ways to distribute the product and play into some of the things Jay talked about in terms of evolutions in the industry and clients' desire to concentrate and the large intermediary's desires to concentrate relationships and get, for their own purposes, get return streams into their client portfolios efficiently.

Operator

Thank you. 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, CFO & Treasurer*

Thank you, all again for joining us this morning. As you heard, we are confident in our prospects for significant long-term growth. We have built a diverse business, which includes some of the highest quality independent firms in the industry with established long-term track records of outperformance across a wide array of investment strategy. We look forward to speaking with you next quarter. Thank you.

Operator

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