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# EDITED TRANSCRIPT

AMG.N - Q2 2025 Affiliated Managers Group Inc Earnings Call

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## OVERVIEW:

Company Summary

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**Jay Horgen** *Affiliated Managers Group Inc - Chief Executive Officer, Director*

**Thomas Wojcik** *Affiliated Managers Group Inc - President, Chief Operating Officer*

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## CONFERENCE CALL PARTICIPANTS

**Dan Fannon** *Jefferies - Analyst*

**Alexander Blostein** *Goldman Sachs Group Inc - Analyst*

**William Katz** *TD Cowen - Analyst*

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**Patrick Davitt** *Autonomous Research - Analyst*

## PRESENTATION

### Operator

Greetings and welcome to AMG's second quarter 2025 earnings conference call. At this time, all participants are on a listen-only mode. (Operator Instructions) As a reminder, this conference is being recorded. It is now my pleasure to introduce your host Patricia Figueroa, Head of Investor Relations.

Thank you. You may begin.

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### Patricia Figueroa Figueroa - *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 2025. 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.

Also please note that nothing on this call constitutes an offer of any products, investment vehicles or services of any AMG Affiliate.

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 reconciliations of any non-GAAP financial measures, including any earnings guidance provided. In addition, we have posted an updated investor presentation to our website 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, Chief Executive Officer; Tom Wojcik, President and Chief Operating Officer; and Dava Ritchea, Chief Financial Officer.

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

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**Jay Horgen** - *Affiliated Managers Group Inc - Chief Executive Officer, Director*

Thanks, Patricia, and good morning, everyone. It has been an exciting and very busy 2025 for AMG so far. In the second quarter, we reported strong results with year-over-year growth of 15% in Economic Earnings per Share and more than \$8 billion in net client cash flows, driven by another record quarter of inflows into alternative strategies.

From an organic growth perspective, the second quarter of 2025 was our strongest quarter in 12 years, reflecting the ongoing execution of our strategy to allocate our capital and resources to areas of secular growth. In addition, our results this quarter showcase the accelerating pace of our ongoing business evolution toward a greater contribution from in-demand strategies in both private markets and liquid alternatives. And we expect our results going forward to continue to benefit from this increasingly attractive business profile.

In the first half of 2025, AMG has added approximately \$55 billion in alternative assets under management, increasing our total alternative AUM by 20% in just six months, including a record \$33 billion in net inflows into alternatives and four new partnerships with Affiliates operating in private markets and liquid alternative strategies. Today, more than 15 Affiliates manage \$331 billion in alternative AUM, contributing approximately 55% of our EBITDA on a run-rate basis.

As we look ahead, given the substantial growth in alternative AUM this year and the addition of new Affiliates, together with the positive impact of our ongoing allocation of capital to share repurchases, we anticipate a meaningful increase to our full-year Economic earnings per share in 2026.

Stepping back, we are seeing several compelling trends that we expect will drive further growth across a number of our Affiliates managing alternative strategies. In particular, these tailwinds include the acceleration of alternative flows into the wealth channel, driven by growing demand for secondary strategies across private equity, private credit and infrastructure, and new strategies in liquid alternatives designed to deliver superior after-tax outcomes for high-net-worth investors.

Two of AMG's largest and longest-standing Affiliates, Pantheon and AQR, are capitalizing on these trends by leveraging their scale, innovative cultures and differentiated expertise. Their strong organic growth is having a pronounced impact on AMG's business profile and earnings, with each Affiliate expected to be a double-digit contributor to AMG's earnings this year.

In addition, AMG's strategic engagement and collaboration on capital formation initiatives will enable many of our new and existing Affiliates to access the full potential of the rapidly expanding opportunity in the wealth marketplace.

Turning to new Affiliate investments, we completed our investment in Verition in the second quarter, and we recently announced a new partnership with Montefiore, a leading European private equity firm focused on mid-cap companies in the services sector with a track record of delivering exceptional returns for clients over the past two decades.

Through its differentiated value-added approach, which focuses on accelerating profitable and sustainable growth by closely collaborating with management teams, Montefiore has successfully scaled portfolio companies from local players into sector leaders across Europe. The firm has excellent forward prospects, and AMG's strategic partnership solutions can magnify the firm's long-term success as it continues to execute its European expansion strategy.

More broadly, we are in the midst of one of the most active periods of new investment activity in AMG's history, having announced four new partnerships with NorthBridge, Verition, Qualitas Energy and Montefiore so far in 2025, each underscoring the ongoing demand for AMG's differentiated partnership approach, our unique ability to source new opportunities and our focus on investing in areas of secular growth. Looking ahead, our new investment pipeline remains strong, with active ongoing dialogue with prospective new Affiliates operating in both private markets and liquid alternatives.

We also completed the sale of AMG's minority stake in Peppertree, more than doubling our initial investment and further demonstrating our ability to create shareholder value by maintaining alignment with our partners and supporting our Affiliates' long-term strategic goals. We were very pleased that the Peppertree partnership culminated in an excellent outcome for all parties, and the significant gain highlights the embedded value of our private markets businesses.

Each element of our growth strategy, including investing in new Affiliate partnerships, investing in our existing Affiliates and investing in AMG's capabilities to magnify our Affiliates' success, is driving the evolution of our distinctive business profile toward greater participation in secular growth areas. And given our strong capital position and diversified business profile, we have ample flexibility to continue to execute on these growth opportunities, while simultaneously returning capital through share repurchases.

Finally, as you can see from our excellent results in the second quarter and for the first half of 2025, AMG's business momentum has accelerated as a result of the disciplined and continuous execution of our strategy. Yet, as we look forward, we believe that the long-term impact of our strategy execution is only just beginning to materialize, and we see meaningful potential for substantial value creation ahead for our shareholders.

And with that, I'll turn it over to Tom.

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**Thomas Wojcik** - *Affiliated Managers Group Inc - President, Chief Operating Officer*

Thank you, Jay, and good morning, everyone. In 2019, we set forth a strategy to evolve our business mix toward secular growth areas, with a primary focus on alternative asset classes. Our strong results demonstrate that our strategy is working, and underscore the growth potential of AMG's differentiated model as well as the unique value proposition of independent partner-owned firms.

AMG delivered more than \$8 billion in net client cash inflows in the second quarter, representing an annualized organic growth rate of 5%. This was our strongest net flow quarter in more than a decade, powered by record net flows in alternatives, with \$19 billion in client cash inflows, reflecting ongoing momentum in private markets fundraising and rapidly growing client demand for a number of liquid alternative strategies. Our strong net inflows into alternatives more than offset \$11 billion in outflows in active equities, reflecting industry and near-term performance headwinds, and multi-asset and fixed income strategies.

I'd like to spend a few minutes talking about alternatives and the strength that we are seeing in this area as a result of executing our growth strategy over the past six years. Our private markets Affiliates raised \$8 billion in the quarter, reflecting investors' conviction in our Affiliates' specialized investment strategies and the impact of ongoing secular growth trends. These trends include the increasing role of private market solutions in investor portfolios, benefiting firms like Pantheon and the significant opportunity we see ahead of us in private markets in the US Wealth channel.

Since 2022, AMG's private markets AUM has grown by 50% and now stands at \$150 billion, driven by high teens organic growth and the addition of seven private markets Affiliates through new investment partnerships, three of which have been announced thus far in 2025.

Earlier this week, we announced a new partnership with Montefiore. With a 20-year track record of consistently delivering top-tier returns, Montefiore has become one of Europe's best-performing private equity managers, with strong net IRRs, an attractive MOIC profile, and compelling DPI across vintages.

The firm has raised six funds as part of its flagship series, launched two additional complementary strategies, and today manages EUR5 billion in assets. Montefiore's two-decade track record positions the firm for future success, and we are excited to welcome our new partners to AMG.

In liquid alternatives, our Affiliates' value proposition is increasingly resonating with clients and this quarter generated nearly \$12 billion in net inflows, driven primarily by tax-aware solutions, and supported by positive contributions across a number of Affiliates. This is now the second consecutive quarter of strong flows we've seen in this category, and client demand remains substantial on a forward-looking basis.

Over the past year, our Affiliates have generated approximately \$20 billion in net new flows into tax-managed liquid alt strategies serving US Wealth clients. This innovative breakthrough speaks to the entrepreneurial spirit of independent firms like AQR, which has a long history of developing new strategies to meet the ever-evolving needs of clients, and we see significant opportunities ahead.

More broadly, AMG's diverse group of Affiliates managing liquid alternative strategies comprises firms with excellent long-term track records across both beta-sensitive and absolute return strategies. And, with the completion of our investment in Verition, one of the industry's premier multi-manager businesses, we have further enhanced the diversification and stability of our earnings profile.

Taking private markets and liquid alternatives together, since 2022 we've grown assets under management from alternative strategies by \$110 billion or approximately 20% per year. That growth has been fueled by a combination of new partnerships and strong organic growth, aided by innovation, excellent investment performance and AMG's product development and distribution capabilities. And, given that a significant portion of the growth we're seeing in alternatives is coming with a combination of longer expected duration, and in many cases the ability to earn performance fees, the EBITDA impact from the growth we are experiencing can be meaningful.

AMG partners with our Affiliates to magnify their long-term success, including through product development and capital formation initiatives. As the US Wealth landscape evolves, we continue to collaborate with our Affiliates to develop and offer high-quality, innovative investment solutions in vehicles and wrappers that meet the needs of clients, including through mutual funds, SMAs, limited liquidity evergreen vehicles and drawdown funds for alternatives. And now, with the filing to register the AMG GW&K Muni Income ETF and recent launches at both Parnassus and Tweedy, Browne, active ETFs as well.

AMG's entry into active ETFs marks a milestone in the ongoing expansion of our US Wealth platform with the goals of broadening our Affiliates' reach by connecting them with a wider range of US Wealth clients, and enhancing clients' access to our Affiliates' differentiated investment capabilities. Our ongoing investments across product development, distribution talent, technology infrastructure, and marketing and education programs designed to drive lasting client engagement, together underscore our commitment to building a scalable and enduring wealth business on behalf of our Affiliates at AMG.

Importantly, the success that we are having in the wealth channel is resonating not only with clients and existing AMG Affiliates, but also with new investment prospects, as accessing this attractive market requires scale and is difficult, if not impossible, for independent firms to do on their own. As we continue to invest in new partnerships with alternative firms, we look forward to collaborating with additional Affiliates to broaden their reach and expand their platforms.

We have strategically evolved our business profile toward secular growth areas by investing in new Affiliates, investing in our existing Affiliates and, investing in our own strategic capabilities, growing the contribution from alternatives to AMG's earnings from approximately one-third five years ago to more than half today. As we continue to execute our strategy, we expect the contribution from alternatives to further increase, enhancing our long-term organic growth profile and our earnings profile.

With that, I'll turn the call over to Dava to discuss our second quarter results and guidance.

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**Dava Ritchea** - *Affiliated Managers Group Inc - Chief Financial Officer*

Thank you, Tom, and good morning, everyone. As Jay and Tom described, the first half of 2025 has been one of the most active periods in AMG's history. And, in terms of capital allocation, we have committed nearly \$1.2 billion in capital across growth investments and share repurchases.

Our business continues to generate strong momentum, demonstrated by improving organic growth, increasing assets under management, and the continued evolution of our business composition toward greater participation in areas of secular growth. These factors, coupled with the strength of our balance sheet and the underlying health and diversity of our business, enabled us to successfully execute our growth strategy during the first half of 2025, and we are well positioned to continue as we head into the second half of the year.

I will start with our results for the quarter before covering the positive impact of this capital activity on the forward earnings power of our business and conclude with a discussion of our balance sheet.

In the second quarter, we reported Adjusted EBITDA of \$220 million, which grew 1% year-over-year and included \$5 million in net performance fee earnings. Fee-related earnings, which exclude net performance fees, grew 4% year-over-year, driven primarily by higher average AUM, resulting from the positive impact of investment performance over the period and organic growth in our alternative strategies, partially offset by outflows from fundamental equity strategies. Economic earnings per share of \$5.39 grew 15% year-over-year, which incrementally benefited from significant share repurchases over the last 18 months.

Now moving to third quarter guidance. We expect Adjusted EBITDA to be in the range of \$230 million and \$240 million, based on current AUM levels reflecting our market blend, which was up 1% quarter-to-date as of July 30 and including seasonally lower net performance fees of up to \$10 million. This guidance includes a full quarter of FRE contribution from Verition, the final quarter of Peppertree contribution, and no impact from our recently announced investments in Qualitas Energy and Montefiore, both of which are expected to close before year-end.

Both Qualitas and Montefiore are within our typical size range for new investments, between \$100 million and \$250 million, and are expected to be modestly accretive to earnings in 2026, with meaningful forward growth potential as they continue to scale and generate carried interest.

We expect third-quarter Economic Earnings per share to be between \$5.62 and \$5.87, assuming an adjusted weighted average share count of 29.4 million for the quarter.

Q3 EBITDA and Economic Earnings per share guidance does not include any book gain from the Peppertree transaction. It is important to note that our four new investments will only have a partial year impact on our 2025 earnings. And as a result, we expect a step-up in earnings for 2026 as we experience the full year impact of these new partnerships, as well as the growth at our existing Affiliates managing alternative strategies this year. We will provide more details around 2026 earning expectations in the coming quarters.

Finally, turning to the balance sheet and capital allocation. With our new investment and seed activity through the first half of the year, we continue to maintain leverage at recent historical levels. And given our annual cash generation and embedded growth in our business, we expect greater flexibility on leverage levels as we scale. Importantly, this robust level of deployment activity does not limit our ability to continue to repurchase shares or complete further growth investments as attractive opportunities materialize.

Our balance sheet remains in a strong position to execute against our opportunities, with long-dated debt, significant capacity from ongoing cash generation, and access to our \$1.25 billion revolver. Additionally, we received pre-tax proceeds of approximately \$260 million from the sale of our stake in Peppertree, which closed on July 1 that further enhances our flexibility.

We repurchased approximately \$100 million in shares in the second quarter, bringing year-to-date repurchases to \$273 million. For the full year 2025, we expect to repurchase approximately \$400 million, subject to market conditions and new investment activity.

As Jay and Tom highlighted, we are really excited about the momentum building in our business today as we are experiencing record levels of alternative inflows and near record levels of new investment activity. Looking ahead, we remain well-positioned to execute our growth strategy within our disciplined capital allocation framework to create meaningful long-term shareholder value.

Now we are happy to take your questions.

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## QUESTIONS AND ANSWERS

### Operator

Thank you.

(Operator Instructions)

Dan Fannon of Jefferies.

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**Dan Fannon** - *Jefferies - Analyst*

Oh great. Thanks. Good morning. Jay, you mentioned the contribution from EBITDA from AQR and Pantheon this year, I think, being in double digits. So I was hoping to get some context around that in terms of what that's been, say, a year ago. And then as you think about management fees versus the potential for performance fees, what does that incorporate? Or what is that mix?

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**Jay Horgen** - *Affiliated Managers Group Inc - Chief Executive Officer, Director*

Yes. Thanks, Dan, and thanks for your question. You did hear me right, we do expect both Pantheon and AQR to be double-digit contributors to our earnings this year. And over the years, both of them have been significant contributors to our earnings. And in particular, I would say Pantheon has been relatively consistent. But given the tailwinds that they're experiencing on an organic growth basis, they're growing pretty significantly.

AQR has had, in the past, been, as everyone knows on the call, a pretty significant contributor to our earnings, and they're back to a pretty significant contributor to our earnings. And we see them growing very significantly as well.

Maybe I'll give a little bit of detail, and I can ask Dava to help me as well just on AQR, in particular. I would say there, before I comment specifically on it, maybe I'll reference my prepared remarks on the compelling trends that we're seeing around organic flows in the Wealth channel, and that's positively impacting both of those Affiliates.

And one of the more notable trends is the client demand acceleration for tax-aware solutions where AQR has emerged a clear market leader. And if you're not as familiar with this, for high-net-worth individuals, the shift in focus to after-tax returns from the historical convention of evaluating it on a pre-tax basis, well, it's a trend in the Wealth space, and we believe it's kind of a game-changing development that will not only benefit those who offer tax-aware solutions, but it will fundamentally reshape asset allocations when you think about it on an after-tax basis.

So we see this as a significant tailwind. Wealth advisers will need to focus on the impact of a given strategy on their clients' tax profiles given that taxes disrupt compounding. So, the shift in focus amongst advisers and high-net-worth investors, it's really in the early innings, and it really benefits AQR.

And why? Because AQR has been an innovator for a long time in liquid alternatives for more than 20 years now. Their firm's ability to bring new strategies and products to market, it's among the best in the industry. And over the last few years, AQR has been building one of the industry's leading capabilities in this tax-aware solutions investing business.

It's developed an entire suite of products, including separate accounts, limited partnerships and now mutual funds. And these strategies, to your point in your question, I should say, they generate higher management fees than their average fee rate. Many of them, because they're liquid alternatives, they generate performance fees. So we have both an increased management fee opportunity and an increased performance fee opportunity.

Maybe more broadly, these assets are part of an entire wealth program and estate program, so they tend to be stickier in terms of duration than your average assets.

So given this momentum, we wanted to make sure that we called it out, and that's why we gave that extra disclosure. But to put it in perspective, AQR has grown its AUM in the last 18 months from the beginning of 2024 from \$100 billion to \$143 billion. And a significant portion is coming from the liquid alts in this space as well as strong investment performance.

So maybe I'm going to let Dava give a bit more detail on the tax-aware business because it is a major trend for us.

**Dava Ritchea** - *Affiliated Managers Group Inc - Chief Financial Officer*

Great. Thanks, Jay. So I can give a little bit more detail as to what we've seen with AQR and what's been driving that. So our liquid alternatives net inflows in the first half of 2025 were really driven by AQR, which has had more than \$20 billion of positive net flows into liquid alts year-to-date.

AQR continues to focus on growing these products, which have had excellent performance and have been building strong momentum with investors and distribution channels. As of June 2025, AQR manages about, I should say, north of \$30 billion in long/short tax-aware AUM.

Currently, the largest and fastest-growing element of this is their Flex series, which was launched in 2022 and has grown quickly to north of \$20 billion in AUM, and there's significant capacity to grow from here. Flex series charges a management fee consistent with liquid alternative products, which can really tailor volatility that fits the client goals. And their long/short commingled product has both management fee and performance fee eligibility.

AQR's growth over the last five years has really been anchored by excellent performance and innovation. And as a result, they've generated performance fees, attracted significant capital from clients and scaled their products by employing disciplined expense management. Importantly, this growth has shifted their business profile to being much more absolute return-oriented and less beta-sensitive. And so given the combination of these trends, the organic growth profile, higher fee rates on inflows, strong performance, that's how we're getting to AQR's overall contribution being in the double digits for 2025.

And maybe just to bring this back to the original question as well, both Pantheon and AQR are large FRE contributors. Both have some of that performance fee capability as well, but I would say a large portion of that is driven on the FRE side.

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**Jay Horgen** - *Affiliated Managers Group Inc - Chief Executive Officer, Director*

Yes. Thanks, Dava. And Dan, I'm going to go ahead and just expand it and talk about Pantheon because that was part of your question as well, because Pantheon is an equally attractive growth story. Since we established the partnership with Pantheon in 2010, it has grown from about \$25 billion in private markets assets to \$85 billion.

The more important story here, I think, is over that time, the partners and AMG catalyzed the firm's transformation into a leading secondaries investor across multiple asset classes, which includes private equity, infrastructure and credit. And the firm today has a leading market position in the secondary space and a leading market position in the Wealth channel for semi-liquids.

So those two tailwinds are really driving their business. And therefore, their growth has accelerated, both their revenue and their profits, growing mid-teens or higher in some cases. And we're very excited about their contribution to AMG as well.

And what I think is unique about Pantheon is their ethos is really an investment-led organization in the secondaries market. And they do have significant scale, and so they're capitalizing on that scale as GPs and LPs look for ongoing liquidity in the market, and they're able to provide it through their secondaries funds.

You've heard us say -- you've heard Tom say many times as well that Pantheon and AMG have collaborated along the lines of many products now in the wealth space. The original P-PEXX, which is the AMG Pantheon Fund is significant today. It's \$6 billion. The P-SECC, which is the credit secondaries fund, is growing, and they've recently launched the P-BUILD, which is the infrastructure fund.

So very excited about the opportunities here. And maybe I'll end by saying that both AQR and Pantheon have the opportunity for revenue growth that is both management fee and performance fee, as Dava said, but incrementally higher fees than even their historical averages. And they also have the opportunity for operating leverage as both of them are at scale. And in both cases now, AMG does participate in that profit growth. So we could see significant growth rates out of both firms. Thanks, Dan.

**Operator**

Alex Blostein of Goldman Sachs

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**Alexander Blostein** - *Goldman Sachs Group Inc - Analyst*

Oh hi, thanks. Good morning. I wanted to build on that AQR discussion for a couple of more minutes, and thank you for all the incremental color. Obviously, it's an important part of the story. When you think about the \$30 billion in tax-advantaged strategies, and I heard you talk about capacity bid, maybe walk us through in a bit more detail how you're thinking about capacity constraints for something that's growing so quickly.

And while I totally agree that the end market demand for a product like this appears quite robust, I was wondering if you could also speak to the competitive advantage AQR might have in this area that could sort of help them sustain their moat, so to speak, in this business relative to other potential incoming competitors.

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**Jay Horgen** - *Affiliated Managers Group Inc - Chief Executive Officer, Director*

Yes. So thank you, Alex, for your question. And I think we'll try to give you a sense for it. Obviously, speaking directly towards Affiliate-related items is more difficult for us, just as part of our own model. We try not to get too deep into it. But you're right, it is an important growth driver. So let's see, Tom and I will give you some information here, I think, that could be helpful.

I'm going to start with just their competitive advantages, and then maybe Tom can help me a bit on the capacity and just how to think about growth from here more than that.

So as you know, AQR is an innovator. They've always been an innovator. They're particularly good at it. And I think, to some extent, their ability to innovate and also have robust trading and risk systems to be able to offer liquid alternatives into the Wealth channel has been something that they've been good at for 15 years now. And I think the element of having that level of risk management and robust systems, really, there's only a finite number of firms in the world that could even attempt to do what they're doing. So there's a bit of a moat just right there.

I think given that they're three years now into being very focused on outcomes for wealth advisers on an after-tax basis, specifically around both market neutral and index-oriented, sort of S&P-oriented products that go long, short, they have got a very big first-mover advantage, in addition to their robust systems.

So we're very excited about the leading position that they have today. And again, they continue to innovate. In addition to offering separate accounts and alternative products that they've had in the past, they've recently come out with the Fusion series, which is a mutual fund long-only tax-aware product.

So they continue to innovate even as we stand today, which very few firms can do. And so when we look at the growth from here, we do think that the growth is significant. And maybe I'll turn it to Tom to just how we think about it more generally.

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**Thomas Wojcik** - *Affiliated Managers Group Inc - President, Chief Operating Officer*

Thanks, Jay, and thanks, Alex, for the question. There are a lot of different flavors, as Jay talked about, and also a number of factors that certainly contribute to what capacity looks like. But I'd say there's a tremendous amount of runway from here.

Also I think you have to think about AQR a bit, right? It's a very large, diverse, well-resourced and incredibly innovative firm. Certainly, they see the opportunity ahead of them. They're understanding the demand trends and just how quickly this has turned into such an exciting opportunity. So they're very focused on building here for the future, not only building the appropriate level of investment capacity, which again is something

they've been in the business of doing for decades, but also, importantly, building the appropriate operational capacity, the appropriate distribution capacity.

So I think we've got a lot of runway from here. And ultimately, AQR is very focused on making sure that they're able to put this product in front of their clients and really provide a solution that, to Jay's point, on the competitive dynamics, we and they and ultimately, their clients believe is very advantaged relative to other offerings in the market.

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**Operator**

Bill Katz of TD Cowen

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**William Katz** - TD Cowen - Analyst

Thank you for taking the questions. Maybe just some big picture kind of questions maybe integrated to each other. I was wondering if you could talk a little bit about just like portfolio management now as you continue to scale your Affiliates, and I appreciate you continue to migrate into the faster growth area of alternatives.

Is there an opportunity to accelerate that by potentially disposing of anything on the traditional side, where I think lead indicates they're probably not good just relative to the alts platform? And then as you just think about buyback, your share count is getting rather small rather quickly. Is there any sort of natural limit here in terms of how low you want to let that go?

Thank you.

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**Jay Horgen** - Affiliated Managers Group Inc - Chief Executive Officer, Director

Yes. Bill, thanks for your questions. Let's see, we might divvy this up amongst the three of us. So I'll start with sort of the overall strategy question that you've asked us, and I'm going to ask Tom to help me on that. And then maybe, Dava, you can talk about the buybacks for us. So give you some time to think about that.

So maybe just on the strategy point, we have been allocating really for some time now, I think Tom said in his prepared remarks, six years now, we decided as a firm to allocate our capital and resources towards areas of secular growth. We spent a lot of time understanding where we think secular growth is in the market and trying to invest to continue to evolve AMG to the areas of highest growth and return.

I do think that we've done that successfully. So in addition to the two Affiliates that we were just talking about, we've invested in over 10 private markets and liquid alternatives firms over this period of time. Those firms themselves are growing as well. So we've got growth kind of in that segment, which is why we're at more than 55% of our EBITDA now on a run-rate basis in alternatives, and we see those continuing to grow.

And we are in the most active period of new investments that we've been in, in more than a decade. And so we see ourselves adding more private markets and liquid alternatives firms. So the natural, I think, evolution here really over the medium term, I'll say, three years is to get to something that looks like two-thirds of our business in alternatives, both kind of equal weighted is our best estimate between private markets and liquid alternatives.

And we kind of like that mix, right? Because one of the benefits of having liquid alternatives sit side by side with long-only sitting side by side with private markets is they're complementary. In fact, in some cases, they diversify us in a way that lets us invest through a market cycle. If you remember, in 2022, our liquid alternatives business has really performed well, lots of performance fees, and it offset what other asset managers experienced that year, which was a downdraft or drawdown in the markets.

This year, with markets near all-time highs, we're experiencing tremendous cash flow from our long-only businesses. And we redeploy that capital into most or all of that capital is going into private markets and liquid alternatives.

So this is a natural evolution. Accelerating that natural evolution for us really has to, one, start with are we constrained in any way to make new investments? And we're not. And do we have a very strong, diverse group of long-only Affiliates? We do. And frankly, I think the balance of all 3 is really unique. It makes AMG differentiated in the marketplace, allows us to continue to grow our business.

Tom, maybe I'll turn it to you to maybe talk a bit more about this, and then we can have Dava talk about repurchases.

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**Thomas Wojcik** - *Affiliated Managers Group Inc - President, Chief Operating Officer*

Yes. Thanks, Jay, and thanks, Bill, for your question. I think you nailed the strategy side of it and also the differentiation side, which I think are all really important points.

Bill, I'll maybe just make one other point, which is, as you know, and those who followed us for a long time know, we certainly don't run our business like a securities portfolio. These are human capital-driven partnerships. That's extremely important to us. So we really don't think about trading in and out of our Affiliates.

We think about the fact that when we come to market and enter into a new partnership, we're really committing on behalf of that business, on behalf of that group of partners, a willingness to be a permanent partner to those businesses. And very importantly, we don't have the unilateral right to ever sell an Affiliate or sell our stake in an Affiliate. And that's an important part of our value proposition.

And it also really differentiates us from others in the market who are taking stakes in asset management businesses. We don't view ourselves as taking stakes in businesses. We view ourselves as partnering with the leadership teams and with Generation 1, Generation 2, et cetera.

So when you see something like a Baring or a Veritable or a Peppertree, that's being driven by the Affiliate, and they are making a choice to ultimately move in a direction that they think is in the best interest of their clients and ultimately the best interest of their business, and we try to be a very supportive partner in those cases.

So I think we're always sort of long the option and our Affiliates are always long the option of those types of opportunities presenting themselves, industry changing over time, circumstances changing over time. But I wouldn't think about us actively managing our portfolio in the way that you asked the question.

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**Dava Ritchea** - *Affiliated Managers Group Inc - Chief Financial Officer*

Great. And thanks, Bill. Why don't I take the one around the buyback situation? First, let me take a step back and describe a little bit how we thought about the repurchases in general and our history over the past five years.

So we generate about \$1 billion in cash flow that we're able to utilize to make growth investments, and also you've seen us use a fair bit of that to repurchase shares. I'd say over the last five years, about 60% of that have been deployed into share repurchases and about 40% of that into new investment opportunities.

Although you've seen that shift this year where we've deployed nearly \$900 million of capital into growth investments, and you've heard our guidance to repurchase about \$400 million of shares this year, we also had changed our tone that we wanted it to be more balanced on a go-forward period. And so we -- it's hard for us to talk about it in a single year period. But over a multi-year period, we really think about a very balanced approach to our capital allocation process.

If you think about the specific question in terms of the natural limit of share count, we obviously continue to monitor our liquidity. Our stock is trading well. We see ample liquidity in that. And we think that the repurchases is a really nice tool for us to return capital to shareholders with some flexibility that allows us to be really opportunistic on the new investment framework.

And so obviously, we'll continue to assess what that looks like over time. But from where we're sitting today, we think it's a really great tool for our shareholders and our capital allocation process.

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**Operator**

Brian Bedell of Deutsche Bank

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**Brian Bedell** - *Deutsche Bank AG - Analyst*

Great, thanks. Good morning. Thanks for taking my question. Great. Maybe just to go to the private market fundraising side, a really strong quarter. I know this area can be more volatile in terms of its magnitude of fundraising. So can you maybe talk about any conviction around the fundraising levels being -- having, I guess, more consistency over time as your portfolios mature? You have now \$150 billion of AUM. And then maybe some color around the composition of the fundraising in the quarter between assets moving into fee-paying AUM like as deployed, for example, or absolute fundraising.

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**Jay Horgen** - *Affiliated Managers Group Inc - Chief Executive Officer, Director*

Good morning, Brian, thanks for your question. I'm going to have Tom take that one. Thanks.

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**Thomas Wojcik** - *Affiliated Managers Group Inc - President, Chief Operating Officer*

Thanks, Jay, and thanks, Brian. Maybe I'll kind of take a step back and just talk about our overall organic growth profile and kind of what we're seeing in the business, and then I'll provide some more detail specifically around private markets.

Really, if you think about a high-level framework in terms of what's driving organic growth trends, it kind of comes down to three things. The first is really the alignment of our overall AUM base with client demand trends today. That's sort of the baseline that we're working from.

Then second, how does that AUM mix change over time, and it can change through the relative growth rates across asset classes and Affiliates as well as the investments that AMG is making to form new partnerships in growth areas as part of our strategy.

And then third, and finally is, how are we enhancing flows at our Affiliates through our own product development, distribution, capital formation.

Those were kind of the three guiding elements that inform the strategy that we put into place several years ago. And our execution on that strategy has made a real meaningful impact on where we stand today and our trajectory for the future. And Brian, to your question, private markets are driving a substantial part of that.

On that first point that I made, alignment of AUM with secular trends, if you just go back a few years to the end of 2021, at that time, about 55% of our AUM was in long-only equities and about 30% was in alternatives. Today, the long-only side is about 40% of AUM. So it's come down from 55% down to 40%. And on the alternative side, combination of liquid alternatives and private markets, that's grown from 30% at the end of 2021 to 45% today.

So the alignment of our overall business with client demand trends has changed, and it's changed materially. And effectively, what that means is the baseline in terms of where we grow from here and the growth characteristics embedded in our business is just in a much better place than it was several years ago.

And that kind of takes me to the second and third points that I started with, which kind of tell you both how we got here and also where we're headed. So our last nine new investment partnerships have all been in alternatives, and that dates back to late 2021. And again, Brian, to your question, 8 of those 9 have been in private markets. And of course, that's been very intentional as a focus of our strategy.

Also over that same time period, significantly more than 100% of our net flows have been in alternatives. So you've seen that piece of the business also growing organically significantly faster than our overall business. And in the same time frame, we've managed to grow the private markets AUM on our US Wealth platform from \$1 billion to now more than \$7 billion. And that's another driver, Brian, to your question around consistency and visibility into flows continuing to grow going forward.

And you're seeing the cumulative impact of all of those things on our business mix evolution in terms of the AUM, on our fee rate, which continues to increase, on the contribution of our EBITDA that's coming from alternatives and coming from private markets, on gross sales and net flow trends and ultimately on the EBITDA impact of those flows going forward as well.

So maybe just to hit a couple of your questions on private markets specifically. This past quarter, we raised about \$8 billion. Those flows were led by another strong quarter at Pantheon, and Jay talked a lot about some of the tailwinds that we're seeing there. And we also saw positive contributions from Comvest, from Ara and from EIG. So when you see kind of the diversity and where those flows are coming from, in this case, this quarter across private market solutions, credit strategies, private equity, infrastructure, we really have a number of different engines that are firing in terms of where we're seeing growth in private markets overall.

So maybe the other thing it's worth spending a moment on, and I'll turn it over to Dava to walk us through that, is what's the impact that these flows are having and, in particular, some of the growth we're seeing in alternatives overall, but private markets specifically on our EBITDA growth opportunity going forward.

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**Jay Horgen** - *Affiliated Managers Group Inc - Chief Executive Officer, Director*

I think we may have lost Dava there for a second. There were go. Sorry. Yes, go ahead.

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**Dava Ritchea** - *Affiliated Managers Group Inc - Chief Financial Officer*

Sorry, sorry about that. I apologize. So Tom, just building on sort of your answer there, given that overall evolution of the business profile that you just talked about with greater participation in alternatives, particularly around private markets, the impact of our growth on the EBITDA basis that we're seeing is expected to be meaningful.

Most importantly, we've seen an improvement in asset-based net flows as we move from a business that was shrinking organically around 10% a year to a business today on an LTM basis that's near flat and grew about 5% annualized this quarter.

And of course, that turnaround is the biggest driver. And when you then drill down further on the changes at the asset class level that we've seen, we've really seen a bifurcation of strong organic growth on the alternative side and headwinds on the traditional side.

The growth in alternatives is moving the business towards higher fee and longer locked strategies that, in many cases, have future performance fee and carry potential, while the outflows have been more isolated to lower fee open-ended equity funds that AMG tends to own a little bit more of. So you do have some offsetting factors here.

But all that being said, as we continue to execute on our growth strategy and build significant exposure to areas of secular growth, our top line momentum is beginning to flow through to EBITDA more clearly, and you're seeing some of that in the guidance that I gave for the third quarter.

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**Operator**

Patrick Davitt of Autonomous Research.

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**Patrick Davitt** - *Autonomous Research - Analyst*

Hey, good morning guys. Most of my specific questions have been asked, so I have a higher-level question just on client discussions and allocations. Obviously, the chatter on this has died down since April, but still hearing large European institutions talk about reallocating to European managers from US managers or simply cutting US exposure, either because of concerns around commitments to ESG and, or frustration with the administration's policies.

Did you see any of that in your 2Q flow trends? And, or are you hearing more of that in your discussions with European clients?

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**Jay Horgen** - *Affiliated Managers Group Inc - Chief Executive Officer, Director*

Yes. Thanks for your question, Patrick. Maybe, Tom, you could start with that one.

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**Thomas Wojcik** - *Affiliated Managers Group Inc - President, Chief Operating Officer*

Sure. Patrick, thanks for your question. So I think you embedded some of this in your question, but obviously, the world is moving quickly, and trends that were in place in April seemed quite different sitting here staring down August. I do think Jay mentioned this a bit when he talked about our overall strategy and the importance of diversification.

One of the great things about AMG is that we are broadly diversified across asset class, geography. And actually, two of the new investments that we've announced most recently are domiciled in Europe in Montefiore and Qualitas in the private equity space and the infrastructure space, respectively.

So we see certainly the dominance that we've seen in markets in the US over the course of the past many years perhaps equalizing a bit. And we've seen a lot of trends in markets overall in Europe and in Asia that seem to be more positive.

So as we think about our business overall and conversations that we're having with clients, we really like to think about the fact that we have the ability to cover the globe in a variety of different ways, and we're participating in those trends in a variety of ways as well.

I wouldn't say that we've seen the specific trend that you talked about influencing our second quarter numbers. It felt to us like some of that was more commentary based and people asking questions in terms of what is the world going to look like as some of the geopolitical and economic things play out over the course of the coming year. So we didn't really see it necessarily show up dramatically in our second quarter, but it's definitely a trend that we continue to watch.

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**Jay Horgen** - *Affiliated Managers Group Inc - Chief Executive Officer, Director*

Yes. And I concur with Tom's comments. When you think about the investor behavior, there are so many different cross currents here. And I just think that at this point, we haven't really seen much movement within our Affiliates. But we are well positioned, as Tom said.

I just note that Pantheon has historically been more of a European client-centric U.K.-based entity. And we also have Forbion in Europe and a number of other managers long-only and others in Europe. So we've got a really good position to the extent that European investors only want European managers. But I think at the moment, we're not really seeing that really impact our business.

So maybe one last thing, if I may, just before we wrap up. I do want to restate from my prepared remarks that this has been an incredibly productive period for AMG, really an output of our strategy that we've been executing over the last six years. AMG's organic flow profile and the EBITDA contribution from that flow profile driven by alternatives, it's been improving for some time now. And the \$8 billion in inflows this quarter illustrate the building momentum that we're seeing.

Our strategic engagement with Affiliates, collaborating with them to magnify their long-term success has generated meaningful results at places like Pantheon, AQR, Artemis, Comvest, Garda and many others, where we're working on business development initiatives to enhance the value for all stakeholders, including AMG. We're very excited about our progress there.

And then I also mentioned that this has been one of the most active years in terms of new investment activity in our history. We've announced four new partnerships. We have a robust pipeline. And we also had a successful culmination of a partnership with Peppertree, which realized significant return for us, which we can redeploy into our opportunity set.

And all of this activity, the organic growth, the EBITDA contribution, the new investments, it's going to have an effect on the second half of 2025, but it's really going to impact 2026, and Dava mentioned that in her prepared remarks, we see a step-up in our earnings going into 2026.

And today, I'm very excited to report that more than 55% of our EBITDA on a run-rate basis is in alternatives, and we see that increasing to something like two-thirds in just a few years, as we believe we are going to continue to see sustained organic growth firm-wide in new investments in these areas.

And then I think you also heard Dava say finally that capital allocation is critical for us. We're very disciplined in our capital allocation. We'd like to orient ourselves towards growth investments, but it has also resulted in repurchases of \$273 million year-to-date and nearly \$1 billion over the last 18 months. We think that, that's additive to compounding for our shareholders over time.

So I'll just leave us where we started, which is I'm very excited about this year, and I'm very excited about our future as we continue to drive the business towards areas of secular growth. So there's just a lot to be excited about here at AMG, and thank you for participating today.

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## Operator

Ladies and gentlemen, this brings us to the end of today's conference call. We would like to thank you for your participation. You may disconnect your lines or log off the webcast at this time, and enjoy the rest of your day.

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