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AMG.N - Q4 2023 Affiliated Managers Group Inc Earnings Call

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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Greetings, and welcome to the AMG Fourth Quarter 2023 Earnings Call.

(Operator Instructions)

A question-and-answer session will follow the formal presentation.

(Operator Instructions)

As a reminder, this conference is being recorded. I would now like to turn the conference over to your host, Ms. Patricia Figueroa, Head of Investor Relations for AMG. Thank you. You may begin.

Patricia Figueroa - *Affiliated Managers Group, Inc. - Head of IR*

Good morning and thank you for joining us today to discuss AMG's results for the fourth quarter and full year 2023. Before we begin, I'd like to remind you that during this call, we may make a number of forward-looking statements which could differ from our actual results materially and AMG assumes no obligation to update these statements. A replay of today's call will be available on the Investor Relations section of our website along with a copy of our earnings release and a reconciliation of any non-GAAP financial measures, including any earnings guidance announced on this call.

In addition, this morning, we 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, President and Chief Executive Officer; and Tom Wojcik, Chief Financial Officer. With that, I'll turn the call over to Jay.

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

Thanks, Patricia, and good morning, everyone. AMG's full year results reflect the positive impact of our strategy and our capital allocation discipline across both growth investments and share repurchases.

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In 2023, we further diversified our business by investing in secular growth areas, welcoming two new Affiliates operating in distinct fast-growing areas of private markets, Forbion and Ara Partners. We also collaborated with our existing Affiliates in expanding their reach into new geographies and channels, including the development of several new and innovative products. Finally, we meaningfully enhanced our liquidity position and further strengthened our balance sheet, while also returning significant excess capital to shareholders.

AMG's business composition is changing, and as we enter 2024, I wanted to reflect on this strategic evolution. Over the past several years, we have deliberately diversified our business by investing in high-quality, independent new Affiliates operating in secular growth areas, and by investing in and alongside our existing Affiliates to capitalize on their growth opportunities. These growth investments have reshaped AMG's business profile from one that was characterized largely by differentiated long-only strategies to one that has a majority contribution from alternatives.

Today, half of our earnings come from alternative strategies, balanced between private markets and liquid alternatives, with the other half of our earnings coming from differentiated long-only strategies. With substantial contributions from each of private markets, liquid alternatives and long-only strategies, AMG's business profile is unique in our industry. And looking ahead, we are well positioned for long-term success across all three areas, as I'll discuss further.

In private markets, our Affiliates offer differentiated return streams in sectors aligned with durable client demand trends. Over the course of 2023, amid a challenging fundraising environment, our private markets Affiliates raised approximately $16 billion, highlighting the appeal of their specialized strategies and providing them with additional dry powder to capitalize on forward opportunities. AMG's private markets Affiliates operate in a number of fast-growing areas with long-term structural tailwinds, including infrastructure, private credit, private markets secondaries and specialty strategies within private equity, venture capital and real estate. Looking ahead, we expect the contribution from private markets to accelerate through a combination of organic growth, new product launches and new partnerships with independent firms.

Turning to liquid alternatives. Our Affiliates delivered outstanding performance and differentiated returns for their clients in 2023. In addition to beta-sensitive strategies, our Affiliates manage absolute-return strategies, including global macro, relative value fixed income and trend-following, all of which generate returns that have low or no correlation to broader markets. We believe liquid alternatives strategies are underrepresented in client portfolios and expect this to change as these strategies have proven their value in choppy or down markets.

As clients continue to focus on portfolio construction to address the changing market environment, and more fully recognize the value of these strategies in their portfolios, we expect increasing allocations into liquid alternatives. In addition to their potential for significant organic growth, these strategies can generate sizable performance fee earnings for AMG. In fact, over the last three years, across vastly different market environments, our liquid alternatives strategies have delivered nearly $600 million in pretax performance fee earnings.

Liquid alternatives are an essential feature of our unique business profile because they are complementary to both our private markets and long-only strategies. This area is often underappreciated, given that the performance-fee earnings have proven to be consistent and significant, especially when private markets and long-only strategies are facing headwinds. Taken together, this dynamic is a great differentiator and source of stabilization for AMG.

Turning to differentiated long-only strategies. As you know, since AMG's inception, we have partnered with a number of the highest quality independent partner-owned firms, managing differentiated long-only strategies. Our Affiliates represent the best of active investing and include a number of the most renowned brands in our industry, including Harding Loevner, Parnassus, Tweedy Browne, and Yacktman. Our Affiliates have built enduring franchises with specialized investment expertise and long-term track records across market cycles.

More broadly, the current market environment characterized by higher volatility and more asset dispersion is generally constructive for active managers. Given their entrepreneurial orientation, investment-centric cultures, and alignment with clients, independent partner-owned firms have competitive advantages in managing risk, and offering differentiated return streams, especially during periods of heightened uncertainty.

Overall, our diversified portfolio of high-quality independent partner-owned firms operating across private markets, liquid alternatives and differentiated long-only strategies is a competitive advantage that both enhances our earnings stability and supports our capacity to continue investing in areas of the highest growth and return to benefit our shareholders.

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Looking ahead, we will continue to strategically evolve AMG through growth investments in new and existing Affiliates, supported by our unmatched three-decade track record of successful partnerships, our new investment origination capabilities and our significant financial flexibility. We will remain disciplined in our capital allocation decisions as we invest in new growth opportunities while also returning excess capital to shareholders.

Our discipline is evidenced by our actions. In 2023, AMG invested in two new Affiliates, seeded three new products and returned a significant amount of capital to shareholders by repurchasing 10% of our shares outstanding.

Before I turn the call over to Tom, I wanted to take a moment to acknowledge an important milestone in AMG's history. Last year, we celebrated 30 years of successfully partnering with independent firms to magnify their advantages and actively preserve their independence. While the investment industry and AMG have evolved significantly over the past three decades, our steadfast commitment to further our Affiliates' success while ensuring their independence remains unchanged.

Looking ahead, we will continue to leverage our decades of experience in offering strategic insights and capabilities to our Affiliates to create exceptional value for their clients and our shareholders. Our proven approach and our reputation as a collaborative, engaged partner attracts the highest quality firms globally. And as we enter our next decade, we are seeing increasing opportunities to invest for growth and drive shareholder value. And with that, I'll turn it over to Tom.

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

Thank you, Jay, and good morning, everyone. Our business continued to evolve in 2023, driven by our focus on allocating our resources and capital to areas of secular growth. AMG's strong fourth quarter results illustrate the momentum we are seeing across our business and position us well for 2024. We had our best quarter of the year in private markets, where our Affiliates' excellent performance continued to drive strong capital raising and organic growth.

In liquid alternatives, outstanding investment performance contributed to approximately $160 million in performance fee earnings for the year. And our differentiated long-only AUM ended 2023 at the highest levels of the year, increasing our forward earnings power. We entered 2024 with fundraising momentum in private markets, a diverse set of Affiliates positioned for growth, a strong balance sheet and significant liquidity to deploy capital to drive long-term durable earnings growth and shareholder value. Turning to our fourth quarter results. Adjusted EBITDA of $296 million included $104 million of net performance fee earnings reflecting strong Affiliate investment performance and the ongoing execution of our strategy to invest in secular growth areas.

Performance fee earnings continue to be a valuable and consistent source of earnings and cash flow that further diversify our earnings profile and enhance our earnings power. Our Affiliates' strong investment performance generated performance fee earnings across each of our eligible asset areas, absolute return strategies, beta-sensitive and private markets, for both the quarter and the year. Today, we have approximately $185 billion of performance fee-eligible AUM, and we expect to continue to grow our Alternatives footprint, further expanding our performance fee earnings opportunity through a combination of organic growth, new Affiliate partnerships and new products.

Economic earnings per share of $6.86 benefited from the impact of share repurchases and included approximately $0.60 of discrete tax benefits primarily related to foreign tax treatment of prior year performance fee earnings. Net client cash outflows, excluding certain quantitative strategies were $4 billion for the quarter, an improvement compared to recent quarters. These results reflected continued strength in private markets fundraising, offset by fundamental equities. Turning to performance across our business and excluding certain quantitative strategies. In alternatives, we again reported strong results with nearly $4 billion in net inflows in the quarter, driven by private markets fundraising. Private markets Affiliates raised $7 billion in the fourth quarter, contributing to a 15% organic growth rate for the full year. Our private markets Affiliates continue to generate outstanding investment performance, and we expect the strong demand they are seeing from clients to support ongoing fundraising momentum in 2024.

AMG has now partnered with 8 private markets Affiliates. Together, these firms manage approximately $115 billion in assets and operate in areas of significant long-term client demand. Our Affiliates manage $40 billion in infrastructure strategies, $40 billion in private market solutions, $20 billion in private credit and $15 billion in specialty areas, including industrial decarbonization, life sciences and multi-family real estate. In liquid

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alternatives, while we saw outflows of $3 billion in the quarter, primarily driven by seasonality in beta sensitive strategies that generated performance fees in 4Q, we are confident that our Affiliates' outstanding investment performance over the last three years across a range of products positions them to benefit from forward demand trends as clients look for differentiated return streams to add diversification and stability to their portfolios.

As I mentioned earlier, we generated nearly $160 million of performance fee earnings for the full year 2023 and have delivered nearly $600 million over the last three years. Within differentiated long-only strategies, we saw net outflows of approximately $4 billion in global strategies and $4 billion in U.S. equities in the fourth quarter, while multi-asset and fixed income flows were flat. Overall, we remain confident that our Affiliates' strong long-term track records across multiple market cycles, position them to capture client demand over time.

Now moving to first quarter guidance. We expect Adjusted EBITDA to be between $235 million and $245 million based on current AUM levels, reflecting our market blend, which was flat quarter-to-date as of Friday, and including net performance fee earnings of $30 million to $40 million and $10 million of catch-up and other fees from private markets Affiliates. We expect first-quarter Economic Earnings per share in the range of $5.03 to $5.24 assuming an adjusted weighted average share count of 34.5 million shares for the quarter. Consistent with last quarter, we posted a guidance reconciliation to the Investor Relations section of our website where you can find the detailed modeling items, including interest expense, amortization and impairments, income taxes and other economic items.

Turning to performance fee earnings expectations for the full year. Over the past five years, our net performance fee earnings have averaged roughly $150 million annually, and we believe that is a good baseline for thinking about performance fee earnings in a normalized year.

Finally, turning to our balance sheet and capital allocation. Our balance sheet is in an excellent position with nearly $500 million of liquidity net of potential debt paydown and the full capacity of our $1.25 billion undrawn revolver. As I mentioned last quarter, we are holding short-term treasuries against our upcoming 2024 institutional bond maturity and have the option to pay down that debt in the near term while we opportunistically look to refinance depending on market conditions.

We actively manage our liquidity and our capital allocation by running all decision making through a common framework to ensure we are earning appropriate risk-adjusted returns for our shareholders over the long-term, including managing net leverage, investing for growth and returning excess capital to shareholders.

In the fourth quarter, we repurchased $133 million of shares, bringing our total repurchases in 2023 to $574 million, inclusive of the $225 million ASR completed earlier in the year. We repurchased approximately 10% of our shares outstanding in 2023 and expect to continue returning excess capital to shareholders through share repurchases. For full year 2024, we expect to repurchase at least $400 million of shares subject to market conditions and new investment activity.

We enter 2024 in a position of strength, with a strong capital position and a growing opportunity set to deploy capital across investments in new Affiliates, innovating alongside our existing Affiliates, including through seeding new products, investing in AMG's capabilities, and returning excess capital through share repurchases. Looking ahead, given our disciplined capital allocation framework and distinct competitive advantages, we are excited about the opportunities ahead of us and are well-positioned to create significant value for our shareholders over time. And now we're happy to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Our first question comes from the line of Bill Katz with TD Cowen.

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William Raymond Katz - *TD Cowen, Research Division - Senior Analyst*

Thanks for taking the question and for the guidance. Maybe a two-part, if I could cheat. The first part is where you think you are in terms of the new deal pipeline? And how do you think some of the recent deal multiples are affecting that, if at all? And then within the liquid alt discussion, how much of this discussion about things getting better is just your expectations subject to view or versus just real-time conversations with the consultant community in terms of those allocations?

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

Yes. Well, thanks, Bill, and nice to hear from you. Maybe I'll start with the new deal pipeline question, address valuation, and then I'll have Tom talk about liquid alts and our expectations there. The framework, what I'll start here with new investments is just to, again, remind you of our strategy with new investments and then maybe talk about the market environment and the dynamics there.

Our strategy, as you know, is to invest in areas of secular growth within private markets, liquid alternatives and differentiated long-only strategies. In addition to that, we are focused on certain themes that cut across all three areas, and that includes sustainable investing, wealth and other themes. We have made several investments this year, last year and the year before in these areas. We expect to continue to do so. Maybe to put a finer point on it, this sort of strategic investing for us is really, as I said in my prepared remarks, it's changing our business composition. And today, alternatives generated about half of our EBITDA, and we see that continuing to grow. And as a result, our focus has been in private markets and liquid alternatives on the new investment side. And within private markets, we're focused on a number of areas and have been for some time that have structural tailwinds like infrastructure, like private markets, solutions, private credit and some other specialty strategies.

And if you think about the new investments that we've made over the last five years, the benefit that we have is we can help these Affiliates grow, and we are increasingly looking for opportunities where we can partner with a new Affiliate not only one that's growing on their own, but then to magnify their advantages as they grow. And the way we do that is through our scaled resources both on the wealth side and on the institutional side. We've been targeting firms that are kind of in that $5 billion to $20 billion in AUM range. Enterprise value is between $250 million and, say, $1 billion. And that range, we think, is a really good range for us to not only help them in areas that they need help, but also easier to triple a firm of that size than it is one that's already $50 billion or $100 billion. So private markets, we're very active there, and our pipeline reflects it.

In the case of liquid alternatives, again, very active there. As I mentioned in my prepared remarks, we also talk about the nature of liquid alternatives and how that's complementary to both private markets and the differentiated long-only strategies because, in fact, they act in a dynamic way, and generally speaking, performed well in flat, choppy or down markets, precisely when the other two are facing headwinds. So we're excited to continue to partner with liquid alternatives managers.

We've had a lot of success over time. We're sort of unique in the marketplace because there aren't very many buyers for those types of businesses. So we see our competitive advantages to be high there. We are really looking for absolute return and opportunistic strategies within liquid alternatives and given our diverse range of liquid alternative managers that we already have, they slot in nicely in that regard. So that's sort of what we're looking for. Obviously, these are areas that are fast growing, that really are areas that have the opportunity for client allocations to increase over time. Maybe taking the market backdrop and describing that, we have several competitive advantages. When we look at the market environment, we have our 30-year track record, our proven partnership model. And we are known for our ability to both magnify the success of our Affiliates, but we also actively support their independence.

So for prospective Affiliates, those that are in our target universe, they do want a strategic partner and they also want to remain independent, and that really is our target universe. That does set us apart both uniquely and positively from the more passive financial-oriented buyers, and it also sets us apart from those who want to consolidate or take control because the ability to strategically benefit from AMG and remain independent is in stark contrast to a consolidator who requires those partner-owned firms to relinquish their independence. So that gives us a really unique advantage in the market to be both strategic and actively support independence.

We have also enhanced here our origination capabilities over the last several years. And so we're originating more new Affiliates, both from an organic perspective, a proprietary perspective, but we just are canvassing the world in a much more rigorous and systematic way. That is increasing

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our pipeline. And I guess I would say, finally, the transaction environment is very attractive for AMG. You've seen a few transactions in the market recently that have come at high prices, but those are extremely large-scaled firms. I think the opportunity for the mid-market firms and those firms where we can help, it's moderated somewhat, I would say, over the last 12 to 24 months, we've seen pricing moderate and also structures benefit both parties from a risk sharing perspective. So we're constructive on the environment, both for private markets and liquid alternatives. And we see the opportunity to invest in 2024.

Maybe I'll just reflect on 2023 for a moment. We had two highly attractive new investments, new partners that we added this year, Forbion and Ara Partners, both in private markets, both in sustainable investing, one being in the life sciences area and the other being in industrial decarbonization. When we look back at 2023, it could have been an even more significant year from a new investments perspective. We entered the final stages with two additional firms that ultimately did not meet our expectations and due diligence. But here, I would say it demonstrated our financial discipline.

So when we look at 2024, our pipeline is strong, maybe stronger than it was this time last year. We continue to see opportunities in these areas of secular growth. And what we need to do from here is to make sure that these transactions fit within our new investment parameters and in keeping with our disciplined approach. So we're looking forward this year to making new investments and we are very constructive on our pipeline. So now let me turn it over to Tom to talk about liquid alts.

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

Thanks, Jay, and thanks for your question, Bill. I'll be brief. I think Jay actually touched on a number of the drivers when he talked about the new investment opportunities we're seeing on the liquid alts side. But Bill, maybe to break your question into two parts. The first, sort of what's happening real time and the second, what that means for our expectations around liquid alternatives for the future.

What's happening now is excellent performance, and performance that's really delivering on the value proposition that clients are looking for when they invest in liquid alternative strategies. As I talked about in my prepared remarks, we delivered $160 million in performance fee earnings this year, $600 million over the last 3 years and more than $1.2 billion over the last 10 years, primarily driven by liquid alternative strategies across a really diverse group. And we use that cash to invest in our growth strategy and to drive some of the new investment opportunities that Jay just went through.

If you think about the strategies that are at play here, we have relative value strategies at firms like Garda and Capula that are performing extremely well on both a relative and absolute basis in delivering high sharp ratios across market cycles. We have trend-following strategies at firms like Winton, AQR and Systematica that have extremely strong long-term track records and have performed very well over the volatile period we've seen over the last several years. We see really strong absolute return performance at firms like AQR. So all of that is contributing to a combination of strong performance for clients, strong performance fee earnings and importantly, also growing AUM to continue to contribute to the performance-fee earnings opportunity over time.

In terms of the future, and I think the core of your question, what does this mean for client demand. I think it's a combination of both. One, we've seen cycles over time where clients sort of move in and out of liquid alternative products, and there are a lot of things that are well set up in the environment today as we look to the next 10 years in terms of expectations for the volatility picture that play very well into the value proposition for liquid alternatives.

And we are seeing lots of really strong client conversations in terms of that opportunity and populating and in some cases, re-populating portfolios with the types of strategies that can really deliver strong risk-adjusted returns and stability and diversification in more volatile times. So we're excited about the liquid alts opportunity, both in terms of the Affiliates we have today. And to Jay's point, those that may join us in the future.

Operator

Our next question comes from the line of Alex Blostein with Goldman Sachs.

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

Thanks for taking the question. So Jay, you guys have been pivoting the business towards alts for a couple of years now and highlighted a number of times that over 50% of EBITDA now comes from alternatives. Can you talk a little bit about the expectations for EBITDA growth over the next couple of years for both the private side and the liquid alts side as we're thinking about continued improvement in flows for both of these categories?

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

Yes. Thanks, Alex. Good morning to you. Maybe Tom and I will each give you some perspective on this. From a top-down perspective, I would say that we, just through fundraising alone on the private markets side this year, we didn't own Ara and Forbion the whole year, but if you look at all of their fundraising activity through the course of the year, it was $16 billion on a base of about $100 billion. So it gives you a sense for fundraising capabilities.

And look, I think when we look out in the next couple of years, we think that in some cases, they're ahead of it. I mean we have a number of infrastructure-related managers, including Pantheon, which has a very sizable infrastructure business. But we also have Peppertree, which is an infrastructure, we have EIG, which is an infrastructure, and we have Ara Partners, which is an infrastructure. So I think we're sort of ahead of these trends, we think. And so we actually expect these trends will continue, maybe even accelerate.

The other area where I would say we're still seeing extraordinary growth -- I don't know how to otherwise characterize it -- is on the direct lending side with Comvest. And as you heard, Pantheon has created a secondaries credit strategy where we think that's going to be meaningful as the secondaries business really develops around the primaries direct lending area. So we're very excited about some of these trends, we think we're ahead of them. So in addition to what we saw as strong this year, we see it potentially increasing.

On the liquid alts side, I would say that we have seen here at AMG, very clearly the benefits of these businesses in choppy times. So 2022, we had a terrific year in liquid alts. And I think clients have noticed, and as Tom said, they're re-populating with these strategies. I do think that if you're looking out several years, it is our expectation that clients will turn to these liquid alternatives to supplement what they're doing in their portfolios.

The first thing that's important to note is they are liquid. And then the second thing to note is that they're generally speaking, either absolute return or have lower or no correlation to markets. And we think that's very important, especially as we are headed for a different kind of period than what we've had in the past.

So yes, I think that 50%, we do see growing both as a percentage of AMG and also driving our EBITDA growth. I would say that we're somewhere in the middle of this journey, having started it 3 to 5 years ago. So I do think in the next 3 to 5 years, we could see alternatives being 2/3 of our business and driven by a balance of both of those. And maybe I'll let Tom add. If you'd like, Tom.

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

Yes. Maybe just a couple of quick things to add to the points that Jay made. If you think about sort of why it matters, right, to continue moving our business more towards alternatives. One, I think it's very important as we approach that 2/3 level and maybe even get beyond that to a 3/4 level over a longer period of time, that's going to change pretty dramatically the nature of the duration of the locked up capital that we have. It's going to continue to change the fee profile that we have. It's going to continue to change the performance fee and carry opportunity that we have. And all of that should contribute to the overall AMG fundraising and flow profile. So those things are all, I think, incredibly important in terms of what our business mix looks like to Jay's point 5 years ago, and what our business mix looks like today as well as what it may look like in the future.

The only other point that I'd add is what's also really important are the things that we bring to the table that help to attract not just private markets or liquid alternatives firms but the highest quality, fastest-growing, best positioned private markets and liquid alternatives firms. And that's where something like what we're doing on the U.S. Wealth side is a real differentiator for us -- helping some of these firms to get into the highest growth space in the industry, helping Pantheon to not only launch new products, but also continue to drive growth, working with firms like Systematica

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and Comvest on new product opportunities. One, that helps us to really differentiate ourselves in the market as firms are looking for a strategic partner. And two, once those firms become part of the overall AMG ecosystem can help to drive outsized growth relative to what they may be able to do on their own. So I think all of those things are a really important part of our strategy and ultimately driving our business mix and the overall health and growth profile of our business higher over time.

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

Yes. I think one other thing I would say, and it actually relates to the capital allocation strategy, is that we remain disciplined in getting to our destination. It is the case that we see a lot of opportunities, and we could change our business mix really quickly. But in order to do so, we would have to lose our discipline. So the one thing I would mention here is that patience is a virtue and we are exercising that patience. But make no mistake about it. We believe that we're making good new investments that are changing the composition of our business. And when we can't find new investments that meet our return thresholds, we're fortunate to be able to repurchase our shares at the level that we're repurchasing it. And therefore, we're just planning for more growth in the future where we have fewer shares.

Operator

Our next question comes from the line of Craig Siegenthaler with Bank of America.

Craig William Siegenthaler - *BofA Securities, Research Division - MD & Head of the North American Asset Managers, Brokers & Exchanges Team*

Jay, Tom, hope you guys are doing well. Also want to congratulate you on the 30 years and to your employees too.

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

Yes. Well, thank you. Thanks for saying that, Craig.

Craig William Siegenthaler - *BofA Securities, Research Division - MD & Head of the North American Asset Managers, Brokers & Exchanges Team*

My question is on net flows. So it's nice to see the improvement. And that's actually despite the fact that sometimes there's negative seasonality in 4Q, but it looks like we didn't see any of that in that number. But I think the math is pretty simple going forward. It's improving private market flows and then it's less outflows in active equities.

But my question is kind of based on what we've seen, and we've seen flows improve, and then a lower exit rate heading into '24, where do you think flows are heading versus the $30 billion-ish of net outflows we saw over the last 2 years? And then just a follow-up is, how do the EBITDA flows look underlying the net flow number just given the much stronger contribution from privates where fees are higher?

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

So Craig, maybe I'll take that, and I'm sure Jay may want to add some thoughts as well. Look, the biggest point of uncertainty for us is what's happening on the overall active equity side. We have a number of extremely strong Affiliate brands there with very strong long-term performance track records. But obviously, that's where we've seen some of the variability. And I think some of that variability will likely continue. But your point is exactly right. When you think about our core strategy, we're really driving this evolution of our business mix more towards secular growth areas and especially with the focus on alternatives in private markets. And as we execute against that, we do expect to continue to enhance the long-term organic growth and earnings growth of the business. And you've seen the evidence of that over the course of the last several years.

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So if you think about what that means to your question on the $30 billion that we saw this year, as the business mix continues to move, right, a higher and higher percentage of our business is going to be in areas that are experiencing growth. And those areas that are seeing headwinds, one should continue to be a smaller part of our overall business. But two, we're also entering into an environment where we think the opportunity for active management continues to improve and where the highest quality franchises like AMG's Affiliates have the best opportunity ultimately to drive growth longer term.

So we feel like we're very long the opportunity on the alternatives and secular growth side, but we also think that we have a real opportunity on the long-only side for those businesses to recover and ultimately be big contributors.

In terms of the underlying EBITDA story, I think it's really important when you think about AMG to think about it in a couple of ways. One, on the alternatives side, certainly, those are higher fee businesses. In general, we tend to own a minority stake in those businesses, although there's a mix. There are a handful where we own a majority as well. But importantly, it's not only the fee rate on the underlying management fee business but also the opportunity on performance fees with respect to the alternatives firms on the liquid side and then the longer-term carry opportunity on private markets.

So the underlying EBITDA on the new fundraising that we're bringing in, you're seeing some of it on day 1 in terms of management fee EBITDA but a lot of it is building over the course of the next 4, 5, 6, 7 years as ultimately, we'll experience carry there as well. So there are a number of different ways that this business mix shift is going to improve both our flow profile over time, but also our overall earnings growth profile over time and the cash that we generate. And to Jay's point on the last question, there are a lot of ways for us to use that cash to ultimately drive earnings growth.

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

Yes. Tom did a nice job. I'll just summarize by saying, look, there are challenges and there are opportunities. I think, obviously, the challenge with respect to AUM and flows for us really relate to the long-only active investing, but we don't think it's going away. Long-only active investing is not going away. And I think the way some of the attitudes are towards that part of businesses in our industry, not just ours, but those who have more legacy sizable businesses. We don't believe it's going away. We think it's been right-sized. We think the quality has gone up. And ultimately, we do think that whether it's product structures or it's just the evolution of technology, we think the delivery of active management is going to improve and therefore, be successful in client portfolios. So that's the challenge, right? That's a challenge on AUM.

The opportunity on AUM is all the alternatives businesses that we keep describing. And we had a good year this year. We had a good year the prior year. We had a good year the year before, and we expect those to continue, maybe even increase. So it really is a mix shift question for us. And as Tom said, underlying that mix shift, we think that the quality, stability, length and the average fee rates are just going up because of that mix shift.

Operator

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

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

Thanks, good morning. Wanted to ask about the liquid alts. And specifically, do you think 2024 is where you will stop saying ex-quant or ex certain quant strategies in terms of the flows? And specifically, how do you think about those Affiliates and their prospects given some of the performance has been good, performance fees have been good, how do you think about growth in specifically those Affiliates?

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

So thanks for the question, Dan. If you go back in history a bit, just to maybe remind others why we started reporting ex-quant. We did have a situation where we had large outflows on the quant side at an Affiliate or a couple of Affiliates who ultimately weren't delivering a substantial

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amount of earnings. So there was a pretty big disconnect between the quantum of AUM that was leading the system which was not really having a material impact on our overall earnings and our overall EBITDA profile.

So we thought it was a much more transparent way to communicate with shareholders to help them to understand the overall earnings profile of the business. We do think that we're at a point now where that has normalized. So we're going to continue to evaluate the way that we've been reporting ex-quant. But I do think a combination of the normalization of where we are on AUM and earnings contribution, as well as the really strong performance we're seeing in a number of those businesses probably does put us in a position where it's time to rethink that.

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

Yes. I would say that sometime this past year in 2023, we probably crossed over that point where we saw the normalization. And so looking forward, it probably is time for us to change that. And maybe making one specific point here, there were a number of firms that were in that bucket, the most notable being AQR. And AQR, I guess we're increasingly optimistic about their forward prospects, and they had very strong results in '23 and '22, particularly in the liquid alternatives area, excellent performance, performance fees and even seeing some organic growth.

We think that business has regained momentum. And again, because it's normalized, the size has normalized relative to the contribution, that is the real reason that we think that we can pivot back to just showing it straight flows.

Operator

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

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

Maybe just sort of summing up a lot of the commentary that you've just discussed in the Q&A section and also in your prepared remarks. It sounds like you're definitely positioning the firm for a stronger organic growth profile in the future. Certainly from a, let's say, predictability perspective, given the pipeline of fundraising that you'll potentially have and maybe if you can comment on the diversity of that fundraising pipeline.

But also I'd like to touch on just the distribution angle in terms of your partnership and your contribution to distribution across your firms. Have you noticed that, that is improving and that can also help that profile, if you can just basically talk about that.

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

Yes. Yes. So I think you're right in the summary, but I'll summarize it too by saying we ultimately think long-term flows are an output of our strategy, and our strategy is to invest in areas of secular growth. And to the extent that we're correct, then we will see flows turn. Whether that happens this quarter or it happens in some other quarter, it seems to us as long as we have conviction and execution on that strategy, we will see positive flows in the future, in aggregate.

What we faced recently is just the crosscurrents of the traditional business versus the alternatives business, which is fast growing and we're at kind of 50-50 now. So I think that is the summary statement there. Maybe I'll turn it to Tom to talk about what we're seeing on the distribution side.

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

Yes. So if you kind of take a look at our distribution, Brian, at a high level, we do really 2 primary things. On the global institutional side, we look to magnify the efforts that our existing Affiliates already have today, helping them get into new geographies and meet with new clients that they haven't had access to historically. That's been a long-term part of our business. We've raised more than $100 billion for our Affiliates over the course of time, and I think continues to be a really good opportunity for us.

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The one where we're seeing a real sort of change in the pace of growth is on the U.S. Wealth side, and I mentioned some of this earlier. We have about a $40 billion U.S. Wealth platform comprised of a combination of mutual funds, separately managed accounts and increasingly limited liquidity vehicles on the private market side. And we've really been leaning in over the course of the past 18 months or so toward new opportunities on that limited liquidity front.

So we see that as an important opportunity for 2 reasons. One, it's the single largest growth market in the world is the alternatives market in the U.S. Wealth space. And two, as I mentioned earlier, it not only helps us to drive growth at existing Affiliates similar to the success that we've seen with the AMG Pantheon fund, which is now approaching $3 billion. But it also helps us to attract the next new Affiliate who's looking to break into that area and really doesn't have the scale or the ability to do it on their own.

So we think AMG distribution and what we do broadly in capital formation, including thinking about product strategy and really working with our Affiliates on how to launch the right new product in the right wrapper into the right geography is going to be an increasingly differentiating part of our value proposition. It's something we've had a lot of success on over the long term, but we also do see it as an accelerant as we shift the strategy now more and more toward alternatives.

Operator

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

Michael Patrick Davitt - *Autonomous Research US LP - Senior Analyst of US Asset Managers*

Good morning. Thank you. I have a follow-up on that in illiquid alts. I know you don't like to talk about specific strategies, but maybe looking over the fundraising calendars of all your illiquid alts managers, layering on the plan, limited liquidity wealth products to the point you just made. Could you maybe at a higher level, try to frame how the volume of illiquid flows is looking versus what we've seen maybe last year or the year before?

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

Yes. Patrick, thanks for your question. We certainly aren't going to project flows for a specific part of the business. But I think if you think about the overall shape as Jay mentioned, on a pro forma basis last year for the new investments that we made in both Ara partners and Forbion, we are at about $16 billion, $17 billion of fundraising for the full year. And we're continuing to add to the diversification and the overall group of Affiliates.

I mentioned in some of my prepared remarks, we're now partnered with 8 private markets Affiliates across about $115 billion of AUM with the big buckets being infrastructure, private market solutions, private credit and then a variety of really specialized and exciting areas. So one of the things that, I think, set us apart in a very difficult fundraising environment in 2023 was the fact that we have a series of managers who have highly in-demand products that are not necessarily the big mainstream, large-cap, LBO type products. And that's enabled us to find places in client portfolios where we can really add value and where there's a scarcity value to a lot of what we do.

I think that the outlook for us going forward will be a function of a couple of things, right? One, the existing Affiliates we have today and what they're doing in their flagship products and new adjacencies that they're working to launch. Two, to your point, the efforts that we're putting forth in the U.S. Wealth space, which is really opening up an entire new client channel. A new leg of the stool, if you will, for a number of these Affiliates. And then all of that great news helping us to partner with the next new Affiliates.

So we think the long-term trajectory in terms of the flows on the private market side, continues to be very positive for us, and we're looking to continue to add to that in a number of different ways.

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

I'll just round out alternatives by just talking about liquid alts as well. Look, we have really good performance in liquid alts. It just obvious statement is the performance has led to higher asset levels has led to above high-water marks has led to more ability, I guess, to greater ability to generate performance fees. But it also has attracted more inquiry, more interest by large pools of capital about adding those to the portfolio.

I already mentioned AQR and it's sort of positive momentum and, in particular, in its liquid alternative strategies. We have a number of sizable Affiliates in liquid alts that can really generate organic growth over time. So we see growth both on the private market side as well as the liquid alt side, in part because the performance is just so good.

Operator

Ladies and gentlemen, that concludes our question-and-answer session. I'll turn the floor back to Mr. Horgen for any final comments.

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

Thank you all again for joining us this morning. We look forward to speaking with you next quarter. Thanks.

Operator

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

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