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AMG.N - Q2 2020 Affiliated Managers Group Inc Earnings Call

EVENT DATE/TIME: JULY 27, 2020 / 12:30PM GMT

OVERVIEW:

Co. reported 2Q20 economic net income of $130m and economic EPS of $2.74.

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PRESENTATION

Operator

Greetings, and welcome to the AMG Second Quarter 2020 Earnings Call. (Operator Instructions) As a reminder, this conference is being recorded.

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

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

Good morning, and thank you for joining us today to discuss AMG's results for the second quarter of 2020.

Before we begin, I'd like to remind you that during this call, we may make a number of forward-looking statements, which could differ from our actual results materially and AMG assumes no obligation to update these statements. A replay of today's call will be available on the Investor Relations section of our website, along with a copy of our earnings release and a reconciliation of any non-GAAP financial measures, including any earnings guidance announced on this call. In addition, we posted an updated investor presentation to our website this morning and encourage investors to consult our site regularly for updated information.

With us today to discuss the company's results for the quarter are Jay Horgen, President and Chief Executive Officer; and Tom Wojcik, Chief Financial Officer.

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

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

Thanks, Anjali, and good morning, everyone. Before I discuss this quarter's results, I want to take a moment to speak about my friend and mentor for 27 years, Sean Healey. Sean passed in May following a two-year battle with ALS, and I know I'm not alone in feeling his loss. Many of you sent your thoughts and condolences and I wanted to again express my appreciation on behalf of everyone at AMG. Sean was a pioneer in our industry. He transformed AMG from a nascent start-up over 25 years ago to the global business it is today. While it has been difficult time for all of us at AMG, we are proud to carry on the shared vision Sean passionately shaped through entrepreneurialism, relentlessness and excellence in execution. While Sean will be greatly missed, AMG is fortunate to have a tremendously talented, energized and motivated, next-generation leadership team that is well aligned with the long-term interest of our shareholders. And in a rapidly evolving market environment, I feel strongly that across the organization, we have the right combination of history, experience and fresh perspectives to adapt our business and create shareholder value over time.

Since transitioning to a remote work environment more than four months ago, we and our Affiliates have remained fully operational and highly effective in continuing to serve our clients and key stakeholders. While COVID-19 has necessitated changes to our approach, it has not meaningfully slowed progress against our strategic agenda. Our existing relationships have proven to be extraordinarily valuable during this period, both our proprietary relationships with new investment prospects as well as our long standing distribution relationships. We have seen a recent pickup in activity and dialogue across both these areas, as clients and prospects worldwide are reengaging. And during this challenging period, the ability to leverage AMG's local sales teams around the world has become even more valuable to Affiliates, as they focus on remaining closely connected with our clients. We continue to believe that partner-owned active managers are most successful in generating alpha over time, particularly in volatile periods. A number of our Affiliates have generated strong performance year-to-date having capitalized on market volatility and increased asset dispersion, in particular, those managing specialty fixed income, global macro and fundamental equity strategies. And as market uncertainty and the recovery further play out, we anticipate additional opportunities for our Affiliates to distinguish themselves.

Throughout the pandemic, a number of investment themes have remained intact, including the ongoing demand for illiquids, while other trends have accelerated, such as the increasing appetite for responsible and impact investing, all against the backdrop of an improving environment for active management. While client allocation decisions will take time to play out, we are already seeing investors increasingly recognize the value and role of active management in their portfolios.

Now turning to our results for the quarter. AMG reported economic earnings per share of $2.74. Consistent with recent quarters, elevated net outflows were driven almost entirely by redemptions in quantitative strategies. As we have previously discussed, these strategies currently account for more than 25% of our AUM, but less than 5% of our EBITDA. As performance challenges persist across these strategies, in part, due to underperformance and value, we anticipate outflows in this category to continue in the near term. Excluding these quantitative strategies, our net flows were broadly stable as illiquid fundraisings and specialty fixed income inflows continued to meaningfully contribute to our results.

Stepping back, as you know, over the past year, we have taken strategic action across a number of areas to actively position our business for a long-term growth and to continue to differentiate and enhance AMG's position in the market. We reshaped our resources and footprint to reallocate capital to areas of growth, collaborated with certain Affiliates to reposition their businesses, invested alongside Affiliates and in AMG capabilities to support growth opportunities and enhanced our capital position. With these initiatives now largely complete, we are better positioned today to fully focus on executing and advancing our growth strategy.

Turning to growth. Garda and Comvest, our two most recent new investments, are good examples of the successful execution of our strategy, which focuses on identifying high-quality, entrepreneurial firms positioned to benefit from secular trends and providing strategic support in the form of distribution resources and growth capital as needed. Since our investment in 2019, Garda has nearly doubled its earnings, as it has benefited from secular demand for its strategies and its outstanding investment track record. In the case of Comvest, AMG provided growth capital along with global engagement by our sales team, which together have enhanced the firm's fundraising activity, as evidenced by Comvest's significant inflows in the second quarter.

More broadly on Affiliate new investments, given the strength of our existing proprietary relationships with outstanding firms, our new investment activity has rebounded, and we continue to be focused on firms operating in areas of secular growth and client demand. Over time, in evolving to meet the needs of partner-owned firms, we have expanded our partnership approach to include growth capital and resources for new Affiliates, such as Comvest as well as existing Affiliates, such as Pantheon, to support a wide variety of growth initiatives. For example, prior to recent favorable regulatory developments on private equity funds for retail investors, AMG's distribution team have been working with Pantheon to build out their access to wealth and retirement channels, and we invested strategic capital and resources to accelerate this initiative. Today, Pantheon is well positioned for significant growth opportunities in these channels due to our collective efforts. And our recent strategic partnership with iCapital further enhances client access to Pantheon's products in this market.

While we continue to evolve, succession planning solutions are a core component of AMG's partnership approach. Generational succession and transition is inevitable for partner-owned firms. And our long-term success and expertise in collaborating with Affiliates to develop and execute management transition plans and align incentives across generations of Affiliate partners remains a significant differentiating factor as firms select AMG as their institutional partner. And today, having worked with Affiliates on these matters for 27 years, our expertise in succession planning is itself creating new opportunities. For example, during the quarter, we announced a new partnership with Inclusive Capital Partners, which was enabled by the successful completion of generational transition at our long-time Affiliate, ValueAct. With AMG's partnership, ValueAct's founding generation executed its plan over the course of 13 years and has now been succeeded by a truly outstanding, next-generation group of partners, led by Mason Morfit. Mason is an exceptional investor, who has demonstrated exemplary leadership over the years, and I am confident that he will guide the next-generation at ValueAct to continued success.

This transition enabled ValueAct's founder to retire and launch Inclusive Capital Partners, and AMG's partnership with In-Cap represents our first investment in a business, wholly dedicated to responsible capitalism. This is a particularly important moment in time for asset managers to address long-term sustainability through the allocation of capital. Client demand for new and more inclusive ways of allocating capital is intensifying, and we are focused on meeting client needs by investing AMG's capital and resources accordingly across existing Affiliates and in considering new Affiliate partnerships. The ongoing success of ValueAct and our continued relationship with our partners at In-Cap are testaments to the strength of our Affiliate relationships, the attractiveness of our model to entrepreneurial investment teams and the flexibility and evolution of our investment approach.

Looking ahead, we are highly confident in our growth strategy and are focused on executing on opportunities, including those which may arise from ongoing market and economic uncertainty. We believe that in this environment, active management, particularly when executed by independent partner-owned firms, is more important than ever and AMG's approach to investing in these firms is unparalleled. Our ability to execute on the opportunities before us is enhanced by our financial flexibility and further enabled by our strong corporate culture with its hallmarks of entrepreneurialism, a partnership orientation and a significant focus on corporate citizenship.

With that, I'll turn it over to Tom to review the details for the quarter.

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

Thank you, Jay, and good morning, everyone. With the combination of AMG's distinctive partner-owned Affiliates, our unique ability to generate both earnings and organic growth accretion through the execution of our new investment strategy and our stable cash flow profile and flexible balance sheet, we are well positioned to generate long-term earnings growth and shareholder value. As Anjali noted earlier, we have posted a new investor presentation to our website, which reflects the evolution of our strategy and more fully describes the unique elements of AMG's value proposition.

Now turning to the quarter and beginning with flows. We reported elevated net client cash outflows of $(18.2) billion this quarter. More than 95% of those outflows were driven by ongoing performance challenges in certain quantitative strategies that contribute less than 5% of EBITDA on a run rate basis. Before I turn to flows by asset class, I'll provide a breakdown of the impact of quantitative strategies and then go through our customary flow discussion by asset class, excluding quant, so that I can provide a bit more texture on what's happening in those areas where we generate the majority of our profitability.

Outflows in quantitative strategies totaled $(17.3) billion, including $(10) billion within liquid alternatives, $(5) billion in global equities and $2 billion in U.S. equities. As performance challenges across these strategies persist, particularly due to value factors lagging growth, we anticipate near-term outflows will remain elevated. In contrast, we continue to see positive momentum in secular growth areas of the business, including private markets, wealth management and fixed income as well as relative stability across our fundamental active equity strategies.

Turning to flows by asset class and excluding quantitative strategies, we saw total net client cash outflows of less than $1 billion and inflows into illiquid alternatives and multi-asset and fixed income were offset by outflows in certain equity strategies. In alternatives, we reported net inflows of $3 billion, driven by continued strong demand at our private markets Affiliates, particularly at Pantheon, where we saw significant fundraising momentum in infrastructure and regional primary strategies; EIG, which completed capital-raising for its fifth private debt fund; and Comvest in non-sponsor backed direct lending, where our distribution team is playing a key role in fundraising. The significant dry powder from recent capital raises across each of our illiquid managers will enable them to continue to put money to work at attractive return levels in the current environment. We also continue to see strong client demand and corresponding inflows in relative value fixed income strategies at Capula and Garda, as a result of their strong near- and long-term track records and in light of recent opportunities to capitalize on market dislocation. And we are seeing client interest in thematic investments as well as volatility-focused strategies, including currency and global macro.

Moving to global equities. We reported outflows of $(3.7) billion, driven primarily by global developed strategies as clients continue to grapple with market uncertainty and adjust risk levels in their portfolios. Several of our largest Affiliates in this area, including Harding Loevner, Genesis and Veritas continued to generate strong performance across a number of global and emerging markets strategies. U.S. equities showed stability in the quarter with net outflows of $(500) million. Our investment performance in this category has significantly improved over time, and today, 70% of assets under management are outperforming benchmarks on a 5-year basis. [Several] (corrected by company after the call) of our fundamental managers, including Yacktman and RiverRoad, are building new business momentum given their strong and improving long-term performance track records.

Finally, in multi-asset and fixed income, we generated $400 million of net inflows in the quarter, driven by continued positive momentum in fixed income products at GW&K and Artemis. This area of our business continues to drive steady, recurring growth and remains well positioned for the future.

Now turning to financials. For the second quarter, adjusted EBITDA of $162 million included $4 million of performance fees and declined year-over-year as a result of the pandemic's impact on Average AUM levels. In addition, the shape of our flows and the impact of the resulting mix shift on revenue, lower performance fees and accelerated share-based compensation also contributed to the change versus a year ago. Economic net income of $130 million benefited modestly from lower cash taxes and economic earnings per share of $2.74 reflect ongoing share repurchase activity.

Now moving to specific modeling items. We expect Adjusted EBITDA in the third quarter to be in the range of $170 million to $175 million based on current AUM levels, reflecting our market blend, which was up 2.5% as of Friday, and seasonally lower performance fees of $1 million to $5 million. Our share of interest expense was $22 million for the second quarter, and we expect third quarter interest expense to be approximately $23 million. Our share of reported amortization and impairments was $86 million for the second quarter. In the third quarter, we expect this line item to be approximately $50 million.

Our effective GAAP and cash tax rates of 3% and 13%, respectively, were lower in the second quarter, primarily as a result of one-time tax benefits. For modeling purposes, we expect our GAAP and cash tax rates to be approximately 25% and 18%, respectively, going forward. Intangible-related deferred taxes were negative $(3) million in the second quarter, primarily given the impact of amortization and impairments, and we expect intangible-related deferred taxes to return to more normalized levels in the third quarter of approximately $6 million. Other economic items were negative $(16) million and included mark-to-market impact on GP and seed capital investments. In the third quarter, for modeling purposes, we expect other economic items, excluding any mark-to-market impact to be $1 million.

Our adjusted weighted average share count for the second quarter was 47.3 million, and we expect share count to be approximately 46.5 million for the third quarter.

Finally, turning to the balance sheet and capital allocation. Over the past several months, given market uncertainty, we've remained prudent by building liquidity, extending duration and enhancing flexibility to position the company for future growth. During the quarter, we took advantage of the strong investment-grade [debt] (added by company after the call) market to issue $350 million of senior notes at a 3.3% coupon rate, the lowest financing cost in AMG's history on a leverage-neutral basis.

We continue to have access to substantial liquidity, including the free cash flow generated by our business, our $1.25 billion revolver and proven access to capital markets to fund growth investments going forward. We repurchased $50 million of shares during the quarter and expect to repurchase at similar levels in the third quarter, subject to forward prospects for new investments and market conditions.

We remain highly selective and disciplined in our approach to capital allocation, evaluating all investment decisions under a common framework, whether that be assessing a new investment prospect, accelerating growth in an existing Affiliate, adding resources to support our centralized services or repurchasing shares. We remain focused on capitalizing on our core differentiators and competitive advantages as we execute against our strategy to drive long-term earnings growth and shareholder value creation.

Now we are happy to take your questions.

QUESTIONS AND ANSWERS

Operator

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

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

I appreciate the color on kind of the flow mix. If we were to think of that in terms of just cash flow contribution, should -- would we be looking at, do you think, kind of, a positive EBITDA contribution from the flow mix given that the passing of the bulk of the outflows is only 5% of EBITDA? So it kind of suggests that on an EBITDA basis, it's positive organic growth.

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

So thanks for the question, Rob. It's a little hard to hear you there, but I think I got all of it. Let me try and answer it from a couple of different angles. One, I'll just give you a little bit of color on flows and then try and come right at it directly. But maybe just to start on flows, consistent with what we've seen in past quarters, as I said in my prepared remarks, about 95% of those outflows were driven by quantitative strategies, now contributing less than 5% of our EBITDA on a run-rate basis. Obviously, that EBITDA contribution number has come down quite a bit over the course of the last couple of years. As Jay noted in his prepared remarks, given the fact that these strategies do represent 25% of our AUM, we expect to see a continued flow pattern on the asset side that is fundamentally disconnected from the overall impact on earnings.

To answer your question more directly in terms of what's happening beneath the surface, I think, the impact of what you've suggested with respect to quant is the right way to think about it. Certainly, the asset flows that we're seeing in quant are not having nearly the impact on EBITDA that the quantum of those asset flows would suggest. With respect to the rest of the business, there are a few positives and then there are also a few, I guess, what I'd call mix-oriented headwinds that we're experiencing. On the positive side, certainly the inflows we're seeing on illiquid alternatives, private markets, relative value fixed income are very positive in terms of their contribution to EBITDA over time.

In this quarter, in particular, you did see a little bit of an elevated number around global equity outflows. And as I think you know, in the global equity space, those do tend to be some of our consolidated Affiliates where we have a larger ownership percentage. So we do have a little bit of mix working against us there. Just in terms of businesses, we own a larger percentage of those with relatively high fee rates, where we've seen some outflows. So I think, overall, certainly the picture in terms of the organic base fee impact or the organic EBITDA impact is significantly better than what we're seeing on the asset side, but there are a number of moving parts that are happening beneath the surface.

With respect to the forward look, I would say that we continue to believe that this is a time when independent active managers can really help clients to navigate market uncertainty and deliver significant alpha that we believe should translate to flows across a number of areas of our business over time. And when you look at the overall shape of our Affiliate base, performance track records, as well as our ability to add new and growing Affiliates through new investments over time, we're very confident that we're positioned to deliver strong organic growth in the future, both on an asset basis as well as on an EBITDA basis, obviously, once we are able to work through some of these quant headwinds.

Operator

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

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

I wanted to follow-up on the point there about the global equity bucket. Maybe just provide a little more detail there and talk about the reasons for the elevated outflows and what the outlook as you look at the pipeline appears to be?

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

Tom, do you want to give a little bit more detail, and then I'll speak more broadly.

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

Sure. Thanks for your question, Chris. So a couple of things happening here. First, I'd say overall, the gross flow picture in global equities has been relatively consistent. What we've seen, particularly this quarter, was more on the redemption side. And in particular, a bit of a pickup on the retail side where we had a couple of idiosyncratic outflows, one related to a change in a model allocation that [was unrelated to performance] (corrected by the company after the call). At a high level, we do have a number of managers who are delivering very strong performance across a number of different strategies, both in terms of global and emerging markets. We feel good about the long-term prospects there. We feel good about the overall environment for active and the quality of some of the client conversations that we're having. We did see, on the fundamental side, as I said, a couple of idiosyncratic things there that were happening this quarter.

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

Yes. And Tom started to pick up on where I was going to go with this, Chris, and thanks for your question. We do have very good 3- and 5-year numbers across a broad array of global managers, including Harding Loevner, Genesis, Veritas, and Tweedy, Browne, so performance is good. Obviously, this was an unusual quarter by its nature with the global pandemic slowdown. We have seen a pickup in dialogue and activity, and we feel very good about our global products. We feel very good about the brands in the global space for us. And as investors increasingly look to active managers to lead them through this environment, we do see that global is a key element of our contribution to cash flows and our success going forward.

Operator

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

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

So just to follow-up on that. I was wondering if you could talk about shorter-term performance as slide 7 gives us 3- and 5-year numbers? Can you talk about the 1-year performance for either global equity or U.S. equity?

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

Yes. Thanks, Dan. I'll take that. Tom, if you have anything to add, I'll pause for a moment. Our performance, especially on U.S. equity has improved pretty significantly, including in the short-term period, but over the 3- and 5-year as well. Yacktman, River Road, Beutel would be three that I would highlight for you. Over the last 5, 7 years, we have had difficulty on the flow side with U.S. equities, but it was off the back of mixed performance. Our performance has greatly improved on the U.S. equity side. I think that bodes well for our positioning going forward. Obviously, and I think most people noticed about us, we have slightly higher concentration in value. And so that has been the longer-term 5-year, 7-year story. But in this most recent period, we have seen our Affiliates distinguish themselves. The volatility has been good for active management, especially for a number of our Affiliates, and we've seen that play out in the numbers. Our year-to-date performance from a distinguishing perspective, it spans to not only U.S. equities and global equities, but also alternatives. We saw Garda and Capula put up very strong numbers year-to-date. We have PFM as well who's had very, very strong numbers as well as First Quadrant. So we've seen a a large number of our Affiliates distinguish themselves in the year-to-date period.

Operator

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

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

A quick follow-up on the quant business. I appreciate all the incremental color on both flows and EBITDA contribution. I believe AQR is the only profit share Affiliate you guys have at this point. So maybe can you walk us through what profitability there looks like, EBITDA margins or anything like that? And with risks of continued outflows there, how would you potentially navigate and maybe shield the holding company from EBITDA pressure there, if it does slip into the negative?

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

Alex, it's Jay. I'll take that. Thanks for your question. Look, we talked about AQR quite a bit in the last several quarters. I'll just start by saying Cliff, John, David, and the rest of the partners there are very focused and aligned. We do have a profit interest, as you point out. And as I mentioned in my prepared remarks, the contribution of all of our quant strategies is less than 5% of our EBITDA. You should be able to do that calculation for yourself. But if you assume AQR is a large percentage of that, say 3-4% of EBITDA, it translates into $30 million - $40 million of profit. And then more broadly, as we look at our Affiliate diversification and as we have a structural element to our model, we are aligned directly with the partners there, which means that the distributions to all partners, including us, come out after the expense base of the business, but before any other partner distributions. And then as it relates to all of our Affiliates, we have individual partnership structures at each entity. So the decline has already been felt in our numbers.

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*

Great. Just maybe just to go back on the quant side. I appreciate the commentary on some of the steps there with 25% of AUM from quant strategies. Maybe if you can talk about what you believe is the remaining AUM contribution and EBITDA contribution from strategies that you think are most at risk of continued outflows that you cited near term, just to get a sense of sort of that trajectory? And then maybe the longer -- bigger picture, as you look for investment strategies to invest in the future, have you severed on quant altogether as a strategy? Or are there still appealing elements of other quant strategies in the marketplace that you might want to continue to invest in down the road?

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

Yes. Thanks, Brian. So I'm not sure there's anything more to say. I think we've covered it very well, both from the prepared remarks and the Q&A. Contribution is in 3% to 5% range. And I think that's the key metric to stay focused on in terms of that exposure. The other 95% to 97% of our EBITDA contribution, there's a lot of good things going on. We've got a pretty strong orientation towards illiquids with Pantheon, EIG, Baring Asia, as well as most recently Comvest. As you heard in the quarter, we have been successful through our own succession planning at ValueAct to partner with a new entity, In-Cap, which is focused on impact investing.

I would like to just mention that, that area is an area of focus for us. This is our first investment in a business wholly dedicated to responsible capitalism. And we do believe that this is an important time in the asset management industry as capital allocation to support long-term environmental, social and governance considerations is going to be a key sustainable theme over the next decade. So this is momentous for us in our development. More broadly, we see a number of our Affiliates being leaders in sustainable investing, most notably, Pantheon is a leader in responsible investing in the illiquid space. And then more broadly, you'll see that we have a number of Affiliates that have started or are continuing to develop products in this space, including EIG, who has a renewable energy product as well as a number of our other Affiliates where we have actually seeded products.

So we see that as a sustainable theme. Fixed income alternative products, as Tom mentioned, have been a highlight for us; Garda and Capula, both have significant flows. But away from those businesses, you'll see that we've had flows in GW&K fixed income products, and more broadly, at AQR and their fixed income products. So when you look at the 95% of the EBITDA contribution, there's a lot of growth there. And as we transition from a mix perspective away from quant, you'll see the growth driving through the numbers over time.

Operator

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

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

Just a question maybe moving away from some of the flow stuff. Just in terms of capital, maybe a little bit more around the debt raise now. And then as you think about acquisition opportunities, one or maybe the 1 or 2 areas you're particularly focused on as you look ahead.

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

Tom, why don't you take the capital first, then I'll come back on the investments.

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

Sure. So thanks for your question, Bill. Why don't I give you a little bit on the bond issuance and then maybe also just more broadly around capital. So I'd put the bond offering itself sort of squarely in the camp of us having a constant focus on enhancing our balance sheet and improving our long-term capital flexibility. We had a good opportunity to extend duration at a very attractive time in the market by issuing a 10-year bond. We used those proceeds to pay down our outstanding revolver balance and a portion of our term loan, while also enabling us to hold some excess cash on the balance sheet at a bit of a more challenging time in terms of overall market uncertainty and also where we see opportunity. If you kind of put that in the context of our overall capital allocation framework, we're highly focused on allocating our resources to the areas of highest growth in our business. And we continue to believe that new investments, when priced and structured appropriately, represent the best use of our capital. And I know Jay will talk a bit more about that.

All of our capital allocation decisions are running through a common framework to ensure that we're earning an appropriate risk-adjusted return for our shareholders and making the best long-term decisions for our business. And in the current period, we are operating with a bit more caution just as we see the significant amount of uncertainty that exists in the market, as well as based on our past experience that taught us that these periods of market dislocation can create unique opportunities. And we want to ensure that we're in a position to be front-footed when those opportunities present themselves. And so we are holding a little bit of extra cash to ensure we're prepared for that. So Jay?

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

Yes. And just picking up on the new investment side, maybe three points. One on market environment, market opportunity, and then the secular growth trends that we're pursuing and then just discipline on pricing. So first, on the market environment. This is an uncertain time. We've been through times like this before. We've seen a pretty sharp rebound in market environment in the last 45 days. With that has come a rebound in our own prospecting pipeline. We're staying cautious, obviously. It's been a very unusual year. And I think we expect opportunities to come out of this volatility, and that has been based on our own experience. And we're staying close to the opportunity set as we move forward here. So we think opportunities come out of this market environment. And then the second thing that I would say is we are very focused on those areas of secular opportunities. We talked about them as it relates to our own existing Affiliates just a moment ago. But I would say that applies also to new investments as we continue to prospect for illiquid managers as allocations by global clients continue to grow in the illiquid space. On fixed income alternatives, and it's important to stress the word alternatives given the low rate environment, finding opportunity in relative value, for example, is a key area. ESG would be another example. And then fundamental, high-quality, active managers is a fourth bucket. So that would be the secular opportunities as well as the individual characteristics that we're looking for in independent partner-owned firms.

And then lastly, over the over the past two transactions that we've done, we've enhanced our focus on structuring. Clearly, pricing is something that people focus on when you think about how much did you pay? What is that relative to your opportunity cost? I think the element of new investments that people don't talk about is structuring. Have you structured for more outcomes that provide the right risk reward framework? And to that, the answer is yes. We've enhanced our own discipline around structuring. And I think having that in the last two transactions has played out well for us. As I mentioned, both Garda and Comvest are performing above our own expectations. And we're structured in a way that allow us to be in the position that we're in today.

Operator

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

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

It sounds like you've hinted a couple of times about the potential for increased interest in kind of traditional active strategies. But we aren't really seeing that in kind of the broader industry mutual fund flow data. So do you think this is a trend that's going to be more on the institutional side coming out of the recent volatility, so a net benefit to those managers with a bigger institutional mix? And through that lens, could you may be broadly frame the won, but unfunded pipeline, you're seeing relative to last quarter or last year?

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

Yes. Thanks, Patrick. Thanks for your question. Yes. The statements really were more around institutional than retail. I think retail tends to react more to market swings as well as historical performance. And I do think that we are seeing our discussions pivot towards active being more important in institutional portfolios. In the forward environment, it's a bit tough to predict because, obviously, the work from home environment did cause a slowdown in terms of getting through due diligence processes and getting through contracts when everything went virtual. So I do think it's harder to predict than it would be in a normal environment. But we think that the orientation of active being important in portfolios during a period of extreme volatility is something that we see as a theme. And as it relates to won but unfunded, in terms of our own pipeline, I'll just say more broadly, we have seen a pickup of activity in the last 30 to 45 days in terms of conversations. And in particular, where there was a bit of a slowdown in the first part of the quarter, I'll use illiquids as an example because it's a longer tail due diligence process, we have seen material closings in the quarter right at the end of the quarter. And I think that bodes well for the rest of the year.

Operator

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

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

Just a clean-up on the flows. So any significant fundraising on the horizon in some of your illiquid affiliates? And then just on the deal front, just wanted to get an update on what you're seeing in terms of sellers' willingness to transact and maybe pricing in this uncertain backdrop?

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

Okay. So those are two different questions. I'll see if I can get both of them, and Tom will help me if I don't. On illiquid fundraising, we have to be careful, there's some regulation around talking about fundraising. We do have a number of Affiliates that have open fundraising in the current period and through the rest of this year. Those fundraisings are ongoing. I would say, in all cases, they've been going well or even better than expected, although there has been a couple of months' slowdown. But we continue to see fundraising that is strong. We also see towards the end of this year, early part of next year, a number of new planned campaigns. And so we will see additional fundraising start at the end of this year, and go well into 2021. The calendar of illiquid fundraising continues to be strong for us [including] (added by company after the call) in some of our most notable products across infrastructure, for example, as well as the private credit of Comvest. So that's on the illiquid fundraising side.

Pivoting to your other question on the new investment side. As I mentioned in my prepared remarks, we have seen a rebound in discussions. We have a number of prospective partner-owned firms in our pipeline where we've had long-standing proprietary relationships. I might just point out that in this environment, existing proprietary relationships are key, both from a new investment perspective, but also from a distribution perspective. Leveraging those proprietary relationships, continuing the conversation and being able to transact in a work-from-home environment is something, I think, we can do and may be unique to us. And so that is an opportunity that I'd like to point out.

As it relates to buyers and sellers coming together, clearly, this volatility, while it creates uncertainty, it also creates fresh perspectives. I think that gives us an opportunity in some cases to come together. And obviously, pricing for the right returns for all of our stakeholders, including our shareholders is critical. We talked about pricing and being disciplined on pricing and having structures that will allow us to experience returns appropriate over a series of outcomes. Those are all things that we are doing and that is acceptable in many cases to the sellers. And I think there is an optimism here that we will be able to continue our pace of Garda, Comvest and the next one.

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

And maybe I can just add, actually, a point to each of the things that Jay just went through. On the first around our private markets franchises, remember that each of those businesses in themselves are pretty diverse businesses with a number of different product lines and areas. And then when you think across the totality of those businesses, it looks like a very diverse overall business. So it's not an area where we're dependent on one single fundraise in any given year that drives our year. It really is pretty consistent, having products in the market, long-term client relationships and everything that Jay said around the environment, I think, is relevant there. Secondly, just with respect to the new investment opportunity, I'd bifurcate a little bit also that there are a lot of firms who are in the market today, who see opportunity in this environment and are actually more focused on looking for growth capital today. So Jay, I don't know if maybe you want to spend just a moment talking a little bit about growth capital and the way we're pivoting there as well.

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

Yes. That's a very good point, Tom, and I appreciate you raising it. As Tom mentioned, importantly, our dialogues with potential new investments are expanding beyond just succession and liquidity-driven transactions. That is something that is important in the longer duration of any partnership that we do and is present in all partnerships, [referring to] (added by company after the call) our capabilities on succession planning and liquidity planning. But as Tom mentioned, what we're seeing is opportunities to deploy strategic capital into new investments as well as in existing Affiliates that we highlighted. But just staying focused on new investments and what does that mean? Making an investment in a business that is looking to accelerate their growth by putting capital directly onto their balance sheet, these would not be liquidity transactions, but more to accelerate the growth. And AMG would invest, for its ownership stake, onto the balance sheet. Partners would then use that capital to leverage it in either new product development or in existing products to scale. That's what happened with Comvest, which is a good example. And that is a reasonable portion of our current new investment pipeline. And when you think about our ways to help Affiliates grow, we can do that at the time of a new investment or we can do that as Affiliates bring us opportunities in their existing business. And using Pantheon, as an example, I mentioned that we invested strategic capital four years ago to launch their 40 Act fund, their CIT and to support their efforts in the wealth and individual [retirement] (added by the company after the call) channel. We put capital in and that capital has been returned to us because those products have now scaled. And as you all know, the most recent DOL letter that was released, while limited in scope, we believe, this is a significant milestone foreshadowing a shift in attitudes and in access of illiquids in the individual retirement and wealth channels. That was an example where we used our own strategic capital to accelerate an existing Affiliate opportunity set.

So we see that happening in new affiliates and existing affiliates. And so I would expect that some portion of our new transactions will include this type of strategic capital.

Operator

Ladies and gentlemen, that concludes our time allowed for questions. 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. As discussed, we are excited about the compelling opportunities ahead. And we will continue to leverage our core strengths to further enhance our competitive position and create shareholder value over time. I hope everyone remains safe and healthy and we look forward to speaking with you next quarter. Thank you.

Operator

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