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AMG.N - Q4 2022 Affiliated Managers Group Inc Earnings Call

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OVERVIEW:

AMG reported 2022 economic EPS of \$20.14 and 4Q22 economic EPS of \$7.28.

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PRESENTATION

Operator

Greetings, and welcome to the AMG Fourth Quarter 2022 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. 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 2022. 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, Patricia, and good morning, everyone. AMG achieved outstanding results in 2022, delivering 10% growth in Economic earnings per share over the past year and 50% growth over 2 years. Notably, we generated these results across dramatically different market environments. In 2021, world markets rose significantly against the backdrop of low rates and easy monetary policies, while in 2022, global tightening and geopolitical risks drove double-digit declines across both equities and fixed income.

Over that period, AMG delivered record earnings per share driven by excellent performance from our Affiliates, new investments in secular growth areas, and share repurchases. Our industry-leading results, in an otherwise challenging environment for asset management, highlight the efficacy of our model, the quality of our Affiliates and the positive impact of our capital allocation strategy. And as we will discuss today, we believe AMG is uniquely positioned for success and continued growth going forward.

Stepping back, over the last few years, we have strategically evolved AMG by aligning our capital and resources with long-term demand trends. Since 2019, we invested \$1.3 billion for growth in new and existing Affiliates that contributed more than \$200 million in EBITDA to AMG in 2022. Alternatives, including both liquid alternatives and private markets, accounted for approximately two-thirds of these investments with the remaining one-third primarily in sustainable strategies.

The decisions we made in 2022 were representative of our growth strategy. We began the year with an incremental investment in Systematica, one of the industry's leading technology-driven liquid alternatives managers, and we ended the year with an investment in Peppertree Capital, a high-quality private markets manager in the fast-growing communications infrastructure segment.

Today, more than half of our earnings are generated by Affiliates in areas of secular growth, nearly doubling our exposure since 2019. And, as we continue to evolve our business mix, we expect that contribution to increase, driving future growth and further differentiating AMG from our peers.

In addition to our successful new investments, we have enhanced our strategic engagement with Affiliates, working with our partners to magnify their efforts and improve their competitive positioning, thereby creating value for all stakeholders. For example, in 2022, our engagement and collaboration resulted in the successful combination of First Quadrant with Systematica. The combination further diversifies Systematica's product offering extends their client reach and supports the growing scale of a business that more than doubled since our initial investment.

In addition, in 2022, strong business momentum at Baring supported by our strategic engagement enabled them to realize the benefits of a combination with EQT. As a result, AMG received more than \$800 million in consideration for our interest in Baring. We have already deployed a majority of that capital for the benefit of AMG shareholders, including through our investment in Peppertree and an increased level of share repurchases.

More broadly, we have used our capital and resources to further our Affiliates' long-term objectives, including through product development, capital formation and other business development initiatives. Through our engagement over time, we expect to identify additional opportunities to build on our Affiliates' long-term growth prospects and their strategic goals.

Looking ahead, we entered 2023 in a position of strength with a strong balance sheet, a diversified array of high-quality Affiliates and a strategy focused on areas of secular demand. AMG's overall momentum should enable us to capitalize on opportunities that will emerge in the new market environment.

Importantly, we believe portfolio allocations need to change, and taking an intentional approach to rebuilding portfolios for this new environment will be essential to achieving client outcomes in the future. Portfolios that were designed around antiquated asset allocation models underperformed materially in 2022, causing a renewed focus on the fundamentals of portfolio construction, including liquidity, reduced correlations and differentiated return streams. We have always believed that partner-owned firms with entrepreneurial cultures are best positioned to deliver differentiated returns across market cycles. And, we expect our Affiliates to be well-positioned to benefit as clients recalibrate their portfolio allocations.

This new environment also brings opportunities for attractive new investments as most buyers retrench and the appeal of AMG's partnership approach becomes even more apparent. Having remained disciplined and selective through a period of high valuations and optimistic business plans, especially in private markets, we are seeing both expectations and valuations moderate.

In addition, in times of uncertainty, an engaged, proven partner becomes even more valuable. Our unwavering commitment to provide partnership solutions to independent firms and our reputation as a collaborative and supportive partner uniquely positions AMG during a time when other buyers are rethinking their approach. And given our competitive advantages, we expect to execute on the attractive new investment opportunities that this environment will likely produce.

Finally, I want to underscore our commitment to a disciplined capital allocation framework. Capital decisions are fundamental to our strategy, and we evaluate every opportunity on a risk-adjusted basis, factoring in the impact of the investment to our business mix, cash flows and franchise. These decisions require judgment, and our allocation discipline is embedded across all elements of our process and culture.

In executing growth investments in new and existing Affiliates, we ensure proper alignment with our Affiliate partners and structures that benefit all stakeholders. While we believe that these investments will drive long-term shareholder value over time, we also have a track record of returning significant excess capital to shareholders as part of our disciplined strategy. Since 2019, in addition to deploying more than \$1.3 billion into growth investments, we have also returned \$1.9 billion of excess capital primarily through share repurchases.

Looking ahead, given our opportunity set, we expect that the mix of our investments will skew more towards growth, but the outcome will always be governed by our capital allocation framework.

In 2023, we celebrate 30 years of successfully partnering with independent firms. While our business, and the asset management landscape, have certainly evolved, we remain true to our fundamental objective of providing solutions to independent partner-owned firms and acting as a catalyst to support their success over time.

Today, we are well-positioned to deliver consistent earnings growth, given our unique competitive advantages. And, through the execution of our growth strategy and our robust capital allocation framework, we expect to create significant shareholder value going forward.

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

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

Thank you, Jay, and good morning, everyone. AMG's excellent 2022 results reflect the differentiation of our business model and stand out against a challenging industry backdrop.

For the full year, we delivered \$1.1 billion of adjusted EBITDA, and economic earnings per share of \$20.14, grew 10% year-over-year driven by outstanding Affiliate investment performance and the execution of our growth and capital allocation strategies. Liquid alternative strategies delivered strong results for both clients and shareholders and generated \$227 million of net performance fee earnings.

And our strategy resulted in two Affiliate investments and significant excess capital returned through share repurchases, driving earnings growth today and positioning us well for the future. As we enter 2023, our Affiliates value proposition is resonating with clients. Our partnership solution set is uniquely positioned to attract new Affiliates. And our balance sheet and cash flow profile enable us to execute on our strategy to create significant shareholder value.

Now turning to our fourth quarter results. Fourth quarter Adjusted EBITDA of \$371 million and economic earnings per share of \$7.28 were up 4% and 19%, respectively, year-over-year, reflecting strong Affiliate investment performance and the impact of new investments and share repurchases.

During the quarter, the Baring transaction was completed, and we received \$240 million in cash and 28.7 million EQT shares. For GAAP purposes, we booked a total after-tax gain of \$576 million, including a \$499 million gain on the transaction that we have reported as a separate line item on our Income Statement and a \$77 million gain on EQT shares, which is included in Investment & Other Income. These gains are excluded from our supplemental metrics, and additionally, Baring earnings are excluded from our fourth quarter and go-forward results.

Turning to performance across our business and excluding certain quantitative strategies. Net client cash outflows for the quarter were \$5 billion, reflecting continued strength in alternative strategies that was offset by fundamental equities and seasonal redemptions.

Within alternatives, we reported another strong quarter with almost \$6 billion in net inflows, led by \$5 billion of private markets fundraising at Pantheon, Comvest and Abacus. Our Affiliates continue to generate outstanding investment performance, and their excellent long-term track records across credit, real estate, secondaries and infrastructure continue to drive fundraising momentum.

Demand for liquid alternatives continued with approximately \$1 billion of net inflows, as the volatility and correlation in traditional equity and fixed income markets led many investors to seek alternative sources of return and diversification. Our liquid alternative managers, including

Systematica, AQR, Capula and Garda, delivered outstanding performance in 2022 with many strategies producing double-digit returns for clients, resulting in significant performance fee earnings for AMG.

The diversification provided by liquid alternatives will be critical in building more resilient portfolios in this new market environment, and we expect our diverse set of Affiliates will benefit from increasing client demand in this area.

Turning to global equities. Net outflows of \$7 billion continue to be primarily driven by growth-oriented strategies, in line with broader industry trends. Given our Affiliates' strong long-term track records in this category, they are well positioned to recapture client demand over time.

In U.S. equities, we saw net outflows of \$4 billion in the quarter, including approximately \$1 billion of retail seasonality. Performance continues to be excellent and improved across all time periods in the quarter. Our Affiliates, including Parnassus, Yacktman, Beutel, River Road and Frontier, continue to enhance their positioning amid the strong relative performance of value equity strategies.

Finally, in multi-asset and fixed income strategies, flows were flat in the quarter driven by inflows into wealth management and stabilizing fixed income results.

Turning to financials. For the fourth quarter, adjusted EBITDA of \$371 million included \$188 million of net performance fee earnings and grew 4% year-over-year as strong performance fee earnings and the impact of our new investment activity more than offset the decline in markets and net flows. Economic earnings per share of \$7.28 grew 19% over the prior year quarter, further reflecting the positive impact of share repurchases and a lower tax rate versus a year ago.

Performance fee earnings continue to provide a combination of earnings growth, diversification, stability and cash flow. Our Affiliates generate performance fee earnings in several ways -- across absolute return, beta-sensitive, private market strategies -- and many of those assets are growing as a function of excellent investment performance, positive flows and successful execution of our strategy across secular growth areas.

In terms of performance fee earnings for full year 2023, we are informed by the combination of our first quarter guidance range, our current performance fee eligible asset base and our high-water mark position. Consistent with our historical experience, we expect a net performance fee earnings range of \$125 million to \$175 million for 2023, and we will update you throughout the course of the year.

Now moving to additional first quarter guidance. We expect first quarter Adjusted EBITDA to be between \$215 million and \$220 million based on current AUM levels reflecting our market blend, which was up 6% quarter-to-date as of Friday and including net performance fee earnings of \$20 million to \$25 million.

As a reminder, our first quarter results will not include the impact of Peppertree, which will be reported on a one-quarter lag beginning in the second quarter and is expected to contribute approximately 1- 2% to EBITDA on a full year basis.

Turning to specific modeling items. For the fourth quarter, our share of interest expense was \$30 million, and we expect it to be at a similar level in the first quarter.

Controlling interest depreciation was \$2 million, and we expect a similar level for the first quarter.

Our share of reported amortization and impairments was elevated at \$78 million for the fourth quarter. We expect it to normalize to approximately \$30 million in the first quarter.

Our effective GAAP and cash tax rates were 23% and 21%, respectively, for the fourth quarter. For the first quarter, we expect GAAP and cash tax rates to be at 26% and 17%, respectively.

Intangible-related deferred taxes were \$4 million this quarter, and we expect a more normalized \$15 million level in the first quarter.

Other economic items were \$1 million in the fourth quarter, which included the mark-to-market impact on GP and seed capital investments. In the first quarter, excluding any mark-to market on GP and seed, we do not expect any contribution from other economic items.

Our weighted average share count for the fourth quarter was 39.2 million, and we expect our share count to be approximately 38 million for the first quarter, reflecting the impact of the accelerated share repurchase program we entered into at year-end.

Finally, turning to balance sheet and capital allocation. While market volatility in 2022 caused many industry participants to take a step back, we continue to focus on executing our strategy. AMG's business model is uniquely advantaged by our ability to deploy capital in the areas of highest growth and return by investing in both existing and new Affiliates.

In 2022, we successfully completed two growth investments: Systematica in January and Peppertree in October, both of which further shift our business mix toward areas of client demand.

Consistent with our guidance, we also returned \$475 million of excess capital through share repurchases. In addition, given our strong liquidity position, which was further enhanced by the Baring transaction closing in the quarter, we entered into a \$225 million accelerated share repurchase program that will be executed over the first half of 2023.

With respect to the Baring transaction, we have now realized nearly \$600 million in total gross proceeds in cash, including monetizing two thirds of our freely tradable EQT shares. And many of the capital actions I just mentioned, including Peppertree, our increased 2022 share repurchases and the ASR, were funded with that capital.

Given our strong balance sheet and free cash flow profile, we entered the year with significant capacity to both execute on our growth strategy and return excess capital to shareholders through repurchases, evaluating all investment decisions under a disciplined common framework. For the full year 2023, we expect share repurchases of at least \$425 million, inclusive of the \$225 million ASR.

The ultimate level of repurchases will be dependent on market conditions and new investment activity. And as Jay mentioned, we believe new investment activity can increase in the current environment, given AMG's unique partnership solution set.

The momentum in our business demonstrates the diversity and strength of our Affiliates and the stability inherent in our model. The changing environment represents a significant opportunity for both our business and our Affiliates to deliver differentiated performance.

In this new market environment, we are confident in our positioning and in our ability to deploy capital to continue to generate earnings growth and shareholder value.

Now we're happy to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Alex Blostein with Goldman Sachs.

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

So maybe we could start with a point, Jay, that you made in your prepared remarks about mixing in investments or prioritizing investments a little bit more for growth versus maybe share repurchase for the year. Maybe help us think through what areas you expect to be relatively more active in. And if the elevated pace of activity does not come through, should we expect you guys to be above the guide on the share buybacks for the year?

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

Yes. Alex, and thank you for your question. So to address the first part on new investments, yes, we do think we're in an environment where we are going to see more activity for us on the new investment side in part because we have seen the market environment change in our favor on the buyer side. We see historical buyers being more inwardly focused as I mentioned on a prior call. And we also see, after a period of elevated valuations and sort of optimistic business plans, more modest valuations and modest expectations. So we think that's a good environment for us to transact.

And I think the last point is that the needs of independent firms, in these periods, really could use a helpful support of a strategic partner like AMG. And that is something that we see in our dialogue with new Affiliate prospects, something that they are really looking for.

And then when you kind of take a step back and you look at our current pipeline, we do have a pretty active pipeline. We have a growth strategy to invest in both new and existing Affiliates in areas of secular growth. So our new investment pipeline very much reflects areas of secular growth.

We've articulated that over some many years now, which we believe to be in areas where long-term demand trends continue to be in the world and in the economy. And that includes areas such as private markets, liquid alternatives, ESG or sustainable investing, Asia and Wealth. And we continue to see businesses in those areas, and we continue to expect that we will do more investments and capital to those areas.

But you're also right that to the extent that we are not able to or willing to make those investments over the course of this year, or let's just say, the next many quarters ahead of us, we will return capital as we have for the last 4 years to shareholders. And when you really take the lens back out, and I think we described it in our prepared remarks, we put \$1.3 billion out into growth investments over the last 4 years and \$1.9 billion into share repurchases.

We would like to see that mix skew more towards growth, but we are prepared to return capital just as we have because we have a disciplined capital allocation framework that governs those new investments. I don't know, Tom, if you can add anything?

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

Yes. So Alex, look, I think you asked your question in exactly the right way. And as Jay walked through, the first thing we're thinking about with our capital is all of those opportunities for growth investment. And then we think about exactly that, which is what do we then do with our excess capital and how much should we repurchase.

So maybe I'll just spend a couple of minutes on our liquidity position and how we're thinking about repurchases, how the ASR plays in, et cetera. So look, we entered 2023 in a very strong overall liquidity position. And that's aided not only by our strong 2022 financial results but also the proceeds from the Baring transaction.

And as Jay said, at the highest level, we're positioned to both invest for growth and return significant excess capital to shareholders via repurchases. Importantly, when you think about repurchases, we finished 2022 with about \$475 million of repurchases, and then we announced the \$225 million accelerated share repurchase program.

So really, the right way to interpret the ASR is, call it, \$25 million of that gets us to our \$500 million full year guidance number for 2022. And then we really prefunded \$200 million of what we plan to do in 2023.

So as you heard in my prepared remarks, for 2023, we used at least \$425 million of repurchases as a good baseline number, which includes the totality of that \$225 million ASR that's going to be executed in the first half of the year and then another \$200 million in the second half of the year.

But we also had meaningful capacity beyond that to invest for growth in all the areas that Jay was talking about, call it approximately \$400 million of balance sheet cash that we've sort of earmarked for growth this year. And that's really even before thinking about using our revolver or taking up our leverage levels. That's just at a consistent leverage level with the liquidity that we have available to us today.

Of course, if those investments don't materialize, we'll likely return more capital to shareholders per our capital allocation strategy and framework. So you should really consider the overall earnings power that comes along with that \$400 million of incremental capital that we have to put to work, whether it goes toward growth investments or whether it ends up being a return of capital via repurchases over time.

Now importantly, the goal is not to push all of that capital out the door in any single quarter or calendar year, but really to ensure that we have the capital when we need it when the highest quality opportunities become available. And that's really the way that we're managing our balance sheet and it's the focus of our overall capital allocation strategy.

Operator

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

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

So I wanted to follow up on Alex's question and just focus more on the investment side. Sometimes it takes the sellers time to digest lower valuations or bids. So in the meantime, are firms generally willing to do transactions at lower valuations now? And are you seeing maybe some great businesses inside of a larger financial firm or another situation where the owner may need to sell over the near term, maybe something more on the distressed side?

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

Yes. Thanks, Craig. It's a good question. So one of the things that drives our partnerships over the longest period the last 3 decades is just demographics itself. So there's only so much that firms can do around succession on their own. We think that AMG is the market leader in succession planning with independent firms. And so demographically driven transactions for us is an ongoing supply of new prospects in really any period.

And then to your specific question on valuations, look, valuations have come down. They've been down for several quarters now. And I think the prospect of them going back up is relatively low. So I do think that there is a -- I guess it's more of an acknowledgment that valuations in the growth era, that came to an end with the tightening, are kind of in the rearview mirror.

One of the ways that we are able to come together with a new partnership and in getting transactions done is to structure for multiple outcomes so that if there is substantial growth in a business that we give that credit to the potential partner. And simultaneously, we are protecting ourselves with structures that allow for a level of cash flow in down scenarios. So we do think, again, we have a particular expertise in structuring for multiple outcomes, which allows us to bring our sort of unique model to the table and get transactions done.

I guess the last thing I would say, and I enjoy saying this, is that when you partner for businesses and you are not buying 100% because, as you know, in all cases, we leave a substantial amount of equity in the hands of our partners. Then really what you're saying is the vast majority of my growth is ahead of me. And therefore, the emphasis on upfront valuations is a little bit lower in our transactions.

So we don't see that as an impediment in getting new investments done in this environment. I think the key question is what are the long-term demand trends, and where are we going to make those investments because that ultimately is going to be the indicator of success of those new investments over time.

And as I've mentioned in my prepared remarks, we do think that a trend is emerging where portfolio allocations are going to need a change as they really got wrong sided with these changing geopolitical and Fed tightening. When we think about our own Affiliates and their ability to deliver differentiated return streams, we do think that this rotation to liquid alternatives, in particular, absolute return and differentiated strategies bode well for our current Affiliates, but it also reflects on what we have in the pipeline today.

We are looking at firms that very much could benefit from changing allocations in this environment. So when we zoom way out, what I would say is we are looking for secular growth trends that our Affiliates and new prospects can take advantage of. We do think that the time is right for us because we have a committed strategy to supporting independent firms throughout their life cycle.

And the needs of those firms have become more acute even in this environment. So we do think that transaction volume could go up from here.

Operator

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

William Raymond Katz - *Crédit Suisse AG, Research Division - MD*

Okay. So just maybe migrating on to maybe a flow discussion at this point. So Jay and Tom, you both have spoken about just sort of this ongoing rotation now and sort of rates normalize, what have you. Can you talk a little bit about what's been driving the alternative flows? And if you think that liquid alternatives will accelerate, where do you think that, that volume will come from?

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

Yes. Thanks, Bill. Thanks for your question. I'm going to have Tom start on that.

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

So thanks, Bill. Let me just kind of walk through flows overall, but maybe even before I go there, just to remind everyone, flows obviously are a very important driver of growth in our business over time. But AMG's model is unique, and really flows are just one of the important drivers in our business.

And really in 2022, if you think about the performance that we delivered, it was driven by a number of the other areas that tend to drive growth in our business. Excellent performance driving performance fee earnings, really strong capital allocation and new investments driving growth, and then also significant return of capital. So flows obviously are going to be an important output of our strategy, but they really are only one of the components that's important.

So you heard us discuss today, our growth strategy is really driving an evolution of our business mix more towards secular growth areas. That's the way that we think about the business. And as we continue to execute against that strategy, we fully expect to enhance the long-term organic growth and earnings growth profile of the business.

So I'll touch both on the private market side as well as the liquid alternative side, and I'm sure Jay will want to add some as well. In terms of where we stand, look, first of all, January was a much more constructive start to the year overall for AMG versus the environment that we faced in 2022. And we have a lot of positive setting up for 2023 and beyond.

We continue to benefit from the diversity and depth of our private markets Affiliates. And they're raising assets across a number of well-positioned strategies, including credit, infrastructure and real estate. And as we said, these flows are incredibly valuable given their fee rate, their long duration and the potential to generate carried interest.

And I think importantly, most of our private markets AUM is also away from traditional private equity, and that's where you're seeing the most acute impact of the denominator effect on fundraising. So we feel more insulated from that trend, given the unique nature of our private markets Affiliates.

And then on liquid alternative strategies, as you know, we're delivering excellent performance. We're having much more active dialogue with clients around portfolio construction and the value of uncorrelated and diversifying return sources, and that all positions us very well in terms of future flow opportunities.

So to put alternatives together over the course of the last 2 years, we've seen approximately \$40 billion of inflows into alternative strategies. And collectively, those now represent more than 40% of our overall EBITDA.

Maybe just to round it out and go through the rest of the business, in U.S. equities, we're very well positioned, given our general tilt toward value strategies and sustainable strategies. And our performance is excellent. 97% of our U.S. fundamental value strategies are outperforming their benchmark on the 3-year period. And looking ahead, we expect these categories to be even more in focus with clients.

Look, obviously, global equities, the second half of the year was difficult in 2022 as we saw a pretty significant derisking across the industry. And in a sense, you could say that what happened in global equities really is clouding some of the progress that we've been making overall in terms of the underlying flow profile of the business at AMG.

That said, we remain well positioned in terms of the long-term track records at our global equity Affiliates and just the quality of those businesses. And then lastly, on multi-asset and fixed income, we saw fourth quarter inflows in our wealth businesses. Those have been a long-term source of stability and growth. And we're also seeing some very positive signs out of the box in fixed income early in 2023.

So overall, really led by alternatives, a sizable position -- portion of our overall business is both inflowing today as well as well positioned for the future. And we feel very confident in our ability to drive long-term organic growth.

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

Yes, Bill, let me just editorialize a bit further on Tom's remarks. The second half of 2022, it was very much a risk-off environment. And we think it masks some of the underlying trends in our business. It really hit our long-only equities part of our business. And as Tom said, in January and early February, we've seen that really abate. The long-term outflows have really slowed down on that part of our business.

And clearly, the liquid alternatives and private markets have been driving our organic growth on the other side. Ultimately, or really for us, flows are really just an output of our strategy. We have high conviction that if we invest in areas of secular growth, the new and existing Affiliates, that we will ultimately see the flows follow.

And then as Tom said, really, what we're trying to do is grow our cash flow and our economic earnings per share, which we did in 2022 and in 2021. And the drivers are multiple drivers because AMG's model is unique. We can see those drivers come from Affiliate performance. We can see it come from flows. We can see it come from new investments or we can see the compounding effect of share repurchases.

And in this period that I just described, we got 3 of those 4 drivers. And they were pretty significant to our earnings profile.

Operator

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

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

Wanted to follow up on the liquid alternative book, but focus on quant. And given the success and performance improvements you've seen over the last basically 2 years, do you think that we're going to be talking about this business or remove the ex-quant discussion in 2023? And maybe talk about the discussions you're having with clients and how you think about gross sales for that portion of your business in kind of this year or next. Yes, that would be helpful.

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

Yes. Dan, thanks for your question. Good question. Yes. So we have had outstanding performance in liquid alternative strategies. And I think you're right to point it out, we've been reporting kind of an ex-quant flow profile for some time. It's a slightly more nuanced situation because some of that quant was long-only global equities.

And so to my prior point, we are still seeing some risk off in those strategies albeit that part of the pie has gotten smaller. So it very well could be that we kind of just go back to straight up flows in 2023 because the liquid alternative strategies of the quant side have just excellent performance. And we do think that they've been underrepresented in client allocations. So we do think that's going to change.

Now look, it takes some time for those allocations to change. And if just conversations and activity at those Affiliates are an indicator, we're having an increased level of searches, increased level of conversations around putting more of these strategies in the portfolios.

And we think portfolios need these types of strategies. Clearly, if you were underallocated to liquid alts, especially in absolute return, trend, macro, multi-strat in 2022, your portfolio performed much worse than those that had a fair allocation to these strategies.

So we do see in '23 and in '24 increasing organic flows into liquid alts. And our performance is just really good, almost categorically. Systematica, AQR, Capula, Garda, Winton, they all had excellent performance in '22. Most of those firms had great performance in '21. And their 1-, 3-, 5- and 10-year numbers all look very competitive with either their benchmarks or even markets like the S&P. So we do see increasing organic growth into these strategies.

And not to lessen the discussion around private markets, which are also in our alternatives bucket. When you think about private markets, we have a number of sort of specialty areas within private markets, including Peppertree, which was a business that we made investment late last year in the communications infrastructure, as well as a private debt manager in Comvest, and a number of other high-quality businesses in that segment, which really are still experiencing significant growth and significant fundraising.

So just generally, our alternatives area, which comes with higher fees, as Tom said, in many cases, longer lockups, the chance for performance fees, we see that driving our growth going forward.

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

And I'll maybe, Dan, just add one statistic to that just to give you a sense. And this incorporates not just sort of quant, but our overall absolute return performance fee eligible book, just to give you a sense of kind of the evolution we've seen over the last couple of years.

The AUM today that we have in eligible absolute return strategies that are above high watermarks has increased by more than 50% since the beginning of 2020. So when we think about not only the performance fee earnings growth opportunity but also the organic growth opportunity, just a more and more sizable portion of our overall book is in a position to deliver those types of characteristics over time.

And you really do get that network effect where excellent performance is driving performance fee earnings, excellent performance is driving new conversations with clients and flows. And we really do think that, that's a real positive for us overall.

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

And as you know, and I know you know this, Dan, is that as you get new clients, you start the new clock with performance and performance fees. And so there is kind of a positive upward cycle that you have with the idea that above high-water mark new clients, we get the opportunity for even more performance fee opportunity, which is what we're seeing in our business today.

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*

Apologies. I'm going to give you a multipart question if that's okay. Just linking a few things together. So first of all, obviously, really strong 2022 relative to the asset manager peers with positive EPS growth. So if you can talk about maybe what's your confidence level in repeating that.

You're probably going to have headwinds for the asset manager industry overall. It's going to make positive EPS challenging for the industry. Maybe just talk about sort of what your confidence is in having another year of positive EPS growth.

And if we think about maybe the headwinds obviously being on the guidance on the performance fee side being a little lower, is that mostly driven by private capital monetizations being down? And then as you think about new investments, are you more geared towards illiquid alternatives or liquid alternatives?

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

Yes. Thanks, Brian. Actually, we might be able to wrap a lot of that into letting Tom give you some more specifics around the guidance that we gave on the call. So I'm going to let Tom do that here in one second.

Just expressing confidence, I mean, we do have a level of conservatism in the guidance that we described. Even around performance fees, the way we come up with that is we look at the amount that's above high watermark. We look at the types of businesses that we have. And we took kind of the performance assumption way down.

And of course, in 2022, the performance was excellent. And in 2021, it was excellent. So candidly, the level of conservatism just in our performance fee estimate is there. In fact, over the last 2 years, you could argue that we've actually reduced the amount of performance that we need to generate this level that Tom has given you guidance. So it's probably more conservative than last year or the year before. So there's upside there. There's also upside in capital, which Tom will describe, but we can't prescribe exactly when that capital will go out, and that's why we haven't sort of put it into our guidance.

Those two things really are the two positive drivers. How that plays out this year as well as things like market beta will really determine our growth in 2023 over 2022, but we're still very optimistic sitting here in February that we'll be able to do that. And then, Tom, maybe you can give more specifics.

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

Yes. Brian, thanks for your question. So maybe what I'll do is I'll just walk through sort of how you would bridge our first quarter guidance through to the full year conceptually. And obviously, there are a number of assumptions that you'll want to make as you do that.

But before I do that, I know in our fourth quarter numbers, there were a fair amount of moving parts, in particular, around the Baring gain as well as the gain on the EQT shares that we monetized, both the mark-to-market as well as the realized gains. I did state this in my prepared remarks, but just to reiterate, none of those gains are included in our EBITDA or our economic earnings per share. We've excluded all of that. So just to be clear, those are clean numbers, excluding the sizable gains on both Baring as well as the EQT shares.

So to address your question, if you use our first quarter adjusted EBITDA guidance range of \$215 million to \$220 million as a starting point, and then that guidance includes \$20 million to \$25 million of performance fee earnings for the first quarter, that really gets you to a run rate number

for management fee EBITDA, which is a pretty good starting point in terms of thinking about the year based on the run rate of where the business stands today.

Then you can factor in the impact of Peppertree starting in the second quarter and contributing something in the range of 2% to EBITDA on an annualized basis. And then, of course, you'll make your own assumptions about beta and flows, and that will get you to a full year management fee EBITDA estimate.

And then we gave you guidance on the performance fee earnings range for the full year of \$125 million to \$175 million. And Jay talked about some of the general conservatism baked into that at this early stage of the year, so you can add that to get to sort of a number or a range for a full year number.

But importantly, as I mentioned in a previous question and as Jay mentioned as well, that number only partially reflects the full earnings power of the business, given it excludes an incremental \$400 million or so of capital that we have today to deploy toward growth investments. And that excludes any incremental leverage or tapping our revolver. That's really just upside to our numbers in terms of earnings power.

And if we aren't able to allocate that capital toward growth over time, you should expect us to return more of that excess capital to shareholders through repurchases. But I think regardless of how you think about that \$400 million in terms of where it goes, you do want to think about the run rate earnings power of the business depending on how and when that capital is ultimately put to work. And you should factor that into the earnings power of the business over time.

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

And I appreciated your opening statement that we do think we're differentiated relative to our peers in part because of the discretionary cash flow nature of our business that we ultimately have a strategy to invest that cash flow into growth. But if not, we have a capital allocation framework to return that to shareholders. That's what's been driving our earnings in a positive direction relative to our peers, and we expect that to continue in 2023.

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 for joining us this morning. As you heard, AMG achieved outstanding results in 2022. And through the execution of our growth strategy and our disciplined capital allocation framework, we are confident in our ability to create significant shareholder value going forward. We look forward to speaking with you next quarter.

Operator

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

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