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AMG.N - Q4 2020 Affiliated Managers Group Inc Earnings Call

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OVERVIEW:

Co. reported 4Q20 economic EPS of $4.22.

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PRESENTATION

Operator

Greetings, and welcome to the AMG Fourth 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. Thank you. You may begin.

Anjali Aggarwal - *Affiliated Managers Group, Inc. - VP of IR*

Good morning, and thank you for joining us today to discuss AMG's results for the fourth 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 can 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. - CEO, President & Director*

Thanks, Anjali, and good morning, everyone. 2020 was an extraordinary year, and the consistent execution of AMG's long-term strategy resulted in strong business performance and growth. Complex operating conditions and volatile markets accelerated transition across the investment management industry with a number of our peers and competitors pursuing scale, while others looked to divest or exit businesses altogether.

Throughout this period, AMG remained committed to our fundamental principles. That investment performance is about skill, not scale. That investment alpha is best generated by differentiated active managers and that the entrepreneurial investment-centric cultures of independent partner-owned firms offer clients the greatest opportunities for alpha. As a result, we remained focused on executing our long-term strategy with excellence and discipline.

Our Affiliates built on their strong long-term performance records, demonstrating their ability to distinguish themselves across market cycles, including during volatile periods like 2020. Today, approximately 3/4 of our products are outperforming their long-term benchmarks on an EBITDA basis.

Our Affiliates also continued to evolve and enhance their product offerings, often in collaboration with AMG, expanding their abilities to meet long-term client needs. And we welcomed four new Affiliates in the past year, all of which operate in areas of strong secular growth, including sustainable and impact investing, private markets and global equities.

Overall, AMG emerged from the unprecedented events of 2020 in an even stronger position than we entered the year, and we enter 2021 with significant momentum across our business and substantial capacity and flexibility to generate meaningful additional earnings growth and shareholder value.

Turning to our results. Since the second quarter of 2020, the earnings power of our business has increased considerably, driven by the strong and improving performance from the large majority of our Affiliates, combined with the impact of strategic investments and actions we have taken to reposition our business over the past 18 months. These collective actions contributed to year-over-year growth in EBITDA of 27% in the fourth quarter driven by growth in management fees and performance fees, as well as operational efficiency.

We also capitalized on the market environment in 2020 to strengthen our balance sheet and improve flexibility for the benefit of our shareholders. With our enhanced capital position and substantial free cash flow, we deployed more than $800 million across a combination of growth investments and share repurchases, including new partnerships with Comvest, Jackson Square and Boston Common, while simultaneously repurchasing 10% of our shares over the course of the year.

AMG had a strong finish to 2020 but the results do not fully capture the magnitude of our earnings power heading into 2021, during which significant market, business performance and new investment tailwinds will further contribute to our earnings growth. In the second half of 2020, business activity and client flows in private markets, wealth management and specialty fixed income were particularly strong.

These areas collectively account for more than 1/3 of our EBITDA and are becoming a more significant contributor to our overall growth profile. Our fundamental equity and liquid alternative strategies are better positioned today given their improved track records, increased performance fee opportunity and enhanced potential to generate organic growth.

In addition to the building momentum of our existing Affiliates, the incremental earnings contribution of our 2020 new investments will be fully realized in our 2021 results, given the timing of these investments over the course of the past year. And finally, given our substantial liquidity and cash flow generation, we expect to continue to deploy significant capital in 2021 across both our new investment pipeline and additional share repurchases. For all of these reasons, as we enter this year, we are confident in AMG's forward prospects and our ability to generate meaningful growth in economic earnings per share.

As you know, AMG is a leader in partnering with independent asset management firms. We have continued to evolve our approach to meet the ongoing needs of our Affiliates as they grow their businesses over time. Today, we offer a uniquely broad set of partnership solutions for independent firms, including growth capital, distribution support, minority investments and long-term succession planning.

Our differentiated approach continues to resonate with the highest-quality independent firms as evidenced by our new investments over the course of 2020, which included: Comvest Partners, a premier middle-market private equity and private credit firm, which is an area of high client demand and increasing allocations; Jackson Square Partners, a leader in global equities with an outstanding reputation and track record for managing high conviction portfolios; and Boston Common Asset Management, a women-owned innovator in global, sustainable and impact investing, which has significant organic growth prospects given their long record of success in ESG investing.

Together, these new investments evidence the power and breadth of AMG's solution set. And all three firms have joined our global distribution platform to expand their client reach across channels and geographies.

Individually, each new partnership underscores AMG's focus on investing in high-quality, growing businesses at disciplined valuations through customized structures designed to deliver returns across a range of outcomes. With our unique competitive position and proprietary relationships, our new investment activity remains high. Across a broader universe of firms around the world, prospective Affiliates are increasingly engaging with us.

Notably, Boston Common is our second partnership with a specialist in sustainable investing following Inclusive Capital last year. Client appetite for responsible and impact investing is steadily increasing, and this is an important moment in time for the asset management industry to address long-term sustainability through capital allocation.

We and our Affiliates are increasingly focused on this imperative. We are closely collaborating to support Affiliates' increased engagement and participation in responsible capitalism, particularly with respect to their product offerings.

For example, we are providing capital and resources to Artemis as they launch a dedicated sustainable global equity strategy. Similarly, we supported GW&K in building out a suite of sustainable fixed income strategies, which AMG is now distributing. More broadly, our global sales teams are bringing client insight to other Affiliates with respect to integrating ESG into investment processes.

Ultimately, we believe that independent active managers are best positioned to generate investment alpha as clients grow their allocations to ESG investing, and our Affiliates are increasingly participating in this growth area.

In its most fundamental way, sustainability, from the perspective of long-termism and the preservation of a firm's ability to build and create value over time, has been at the very heart of AMG's business purpose since our inception in 1993. AMG's foundational principles support and enhance the long-term duration of independent firms through succession planning. We help partner-owned firms to manage their greatest asset and their greatest risk, human capital, and to preserve and enhance partner alignment with their most important stakeholder: their clients.

In addition to human capital, AMG also offers capabilities to assist Affiliates in addressing other long-term risks, including operational, regulatory and reputational support. In helping our Affiliates to manage long-term risks and enhance their ability to grow over time, AMG has focused on the sustainability of independent partner-owned firms for nearly 30 years.

And as we build upon our three decades of successful partnerships and position ourselves for the future, the impact of the strategic and growth investments that we have made over the past two years are beginning to materialize in our results, as they did in the fourth quarter and will more fully manifest in the years ahead.

Over this period, we have invested in four new Affiliates, invested in the growth of our existing Affiliates, broadened our partnership solution offering, enhanced our strategic capability, realigned our distribution platforms with the greatest opportunities, and significantly enhanced our capital position. We have achieved all of this while re-invigorating AMG's entrepreneurial culture and re-establishing an ownership mindset across the organization.

Looking ahead to 2021. We have significant momentum in our business and heightened conviction in our strategy. As we continue to generate increasing levels of free cash flow, and we invest that capital into our growth initiatives while returning excess capital through share repurchases, AMG's long-term opportunity to compound earnings is clear, and positions us to deliver significant shareholder value over time.

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

Thomas M. Wojcik - *Affiliated Managers Group, Inc. - CFO*

Thank you, and good morning, everyone. As Jay discussed, strategic changes taking place in our industry are creating significant disruption, and that disruption is highlighting AMG's longstanding belief in the value proposition of independent partner-owned firms and their unique alignment with their clients.

At the same time, focused execution against our strategy is producing results, in both our quarterly earnings and our expectations for future growth. We enter 2021 with significant momentum across our business, increasing earnings power and a stronger and more flexible balance sheet to execute on the considerable opportunities ahead of us to generate shareholder value.

Turning to the quarter. Adjusted EBITDA of $255 million grew 27% year-over-year driven by strength in both management and performance fees, and economic earnings per share of $4.22 benefited from an enhanced level of share repurchase activity.

AMG delivered strong earnings growth despite net client cash outflows of $(15.8) billion that were driven by certain quantitative strategies and seasonal client redemptions. Quantitative strategies accounted for 95% of outflows in the quarter while contributing approximately 3% of run-rate EBITDA. Away from quant and taking into account seasonality, our underlying organic growth trends continue to improve, and client flows were positive in the quarter. Strong investment performance and an increasingly attractive environment for allocating to active managers drove further stabilization in fundamental equities. And Affiliate strategies across illiquid alternatives, wealth management and specialty fixed income generated significant positive net flows and continue to contribute an increasing proportion of our earnings.

Turning to our asset class breakdown and excluding challenged quantitative strategies. In Alternatives, we reported net inflows of $700 million in the fourth quarter, reflecting ongoing momentum across our illiquid alternative Affiliates. Strength in private markets was partially offset by $2 billion in seasonal redemptions in certain liquid alternative strategies with 4th quarter liquidity windows.

Fundraising remains strong at Pantheon, Baring, EIG and Comvest as clients continue to steadily increase private market allocations globally. Performance in this category has been excellent as our Affiliates have been deploying dry powder into attractive return opportunities, including across Asia Private Equity, Global Secondaries, Co-investments and Credit funds.

Overall, our private markets book remains a significant source of earnings growth, accounting for nearly 20% of management fee EBITDA and continues to build future carried interest potential.

Within liquid alternatives, our Affiliates continue to post strong performance across relative value fixed income and concentrated long-only strategies, which collectively generated the majority of our performance fees in 2020. Garda and ValueAct, among others, produced very strong returns in 2020, and our liquid alternative strategies enter 2021 well positioned to deliver for clients.

Moving to fundamental equities. We reported net outflows of $(2.3) billion in global equities and $(1.1) billion in U.S. equities, partly due to the impact of retail seasonality. We continue to generate positive organic growth in areas where client demand for active converges with top-quartile performance, including at Harding Loevner, Veritas and GW&K.

Our investment performance across our fundamental equity strategies continues to be very strong, with approximately 80% of fundamental equity AUM above benchmark for the 5-year period, significantly outpacing the 62% level of 2 years ago. And with that strong performance, coupled with a more favorable macro environment for active investing, we are well-positioned for future organic growth. In particular, we are seeing increasing momentum in client conversations regarding value strategies, where overall industry dynamics have improved and our Affiliates continued to deliver strong relative investment performance.

Multi-asset and fixed income strategies posted another quarter of strong organic growth, generating $1.9 billion of net inflows driven by muni bond strategies and broader wealth solutions at GW&K and Baker Street. This area of our business continues to deliver steady, long-duration inflows, and we anticipate ongoing client demand trends to support future growth.

In aggregate, AMG is well positioned to generate positive flows over time given our Affiliates' participation in areas supported by long-term client demand trends and their differentiated ability to deliver superior outcomes for clients.

Now turning to financials. For the fourth quarter, adjusted EBITDA of $255 million grew 27% year-over-year, driven by strong investment performance, higher markets, lower corporate expenses and the impact of growth investments in both existing and new Affiliates, including Affiliate equity purchases.

Adjusted EBITDA included $60 million of performance fees, driven by strong investment performance across a broad array of alpha-oriented strategies. Economic earnings per share of $4.22 further benefited from an elevated level of share repurchase activity, which I'll expand on in a moment. For the full year, performance fees of $86 million represented approximately 11% of our earnings. With a diverse and growing performance fee opportunity, we are entering 2021 well-positioned for continued strength in this area.

Now moving to specific modeling items for the first quarter. We expect aAdjusted EBITDA to be in the range of $240 million to $250 million based on current AUM levels, reflecting our market blend, which was up 2.5% as of Friday. Our estimate includes a performance fee range of $35 million to $45 million, reflecting normal seasonality and strong performance at our liquid alternative managers.

Our share of interest expense was $27 million for the fourth quarter, reflecting the impact of our hybrid debt offering. We expect interest expense to remain at a similar level for the first quarter. Controlling interest depreciation was $2 million in the fourth quarter, and we expect a consistent level for the first quarter. Our share of reported amortization and impairments was $87 million for the fourth quarter. In the first quarter, we expect this line item to be approximately $40 million.

Our effective GAAP and cash tax rates were 24% and 25% for the fourth quarter. For modeling purposes, we expect our GAAP and cash tax rates to be approximately 25% and 19%, respectively, for the first quarter.

Intangible-related deferred taxes were negative $(3) million in the fourth quarter, and we expect intangible related deferred taxes to be $9 million in the first quarter. Other economic items were negative $(8) million and included the mark-to-market impact on GP and seed capital investments.

In the first quarter, for modeling purposes, we expect other economic items, excluding any mark-to-market impact on GP and seed, to be $1 million. Our adjusted weighted average share count for the fourth quarter was 45.3 million, and we expect share count to be approximately 43 million for the first quarter.

Turning to the balance sheet and capital allocation. Over the course of 2020, we continued to position the company for growth, taking advantage of the historically attractive financing environment to enhance our capital position by building additional liquidity and flexibility.

We doubled the duration of our debt to 15 years while keeping our cost of debt unchanged, enhanced our capital flexibility by issuing junior hybrid debt and significantly improved our liquidity position, including the repurposing of our dividend in favor of share repurchases. As a result of these actions, our balance sheet is in excellent position heading into 2021, and together with the flexibility provided by our significant discretionary free cash flow, we feel confident in our ability to invest for growth and simultaneously return significant excess cash to shareholders.

In 2020, we allocated the cash flow generated by our business toward a combination of growth investments and capital return to shareholders, primarily through share repurchases. We invested approximately $400 million of capital into growth investments across four new Affiliate partnerships, an elevated level of Affiliate equity purchases, and seed and GP capital commitments.

In addition, we repurchased $430 million of shares during the year, repurchasing 10% of our shares outstanding. In the fourth quarter, we repurchased $226 million of shares versus our guidance of at least $100 million. The additional $126 million of repurchases in the quarter reflect strong business performance in the second half of 2020 and significant incremental cash generated from performance fees and tax benefits.

Looking ahead, through the combination of higher run-rate cash generation, a more normalized level of Affiliate repurchases and our strong liquidity position, we have the flexibility to continue to increase discretionary capital allocation to both growth investments and capital return. In the first quarter, we expect to repurchase approximately $200 million of shares, which is elevated by $100 million as a function of our strong year-end cash position and first quarter performance fee expectations.

Finally, turning to full year guidance. While we haven't given full year guidance in some time, given the sharp move in equity markets, the increased earnings power of the business on both a management fee and performance fee basis, our strong liquidity position and heightened share repurchase activity, we are providing earnings guidance for 2021.

We expect Economic earnings per share to be in the range of $15.50 to $17.00, reflecting an Adjusted EBITDA range of $875 million to $940 million. The midpoint of that range includes a market performance through last Friday and 2% quarterly market growth starting in the second quarter, performance fee contribution of approximately 10% of earnings and a weighted average share count for the year of approximately 41.5 million, which reflects $500 million of excess capital returned through share repurchases.

I would note that while we are not including the impact of new investments in earnings guidance, given timing uncertainty, new investment activity is incorporated into our capital planning and would provide incremental upside to this guidance. Both our first quarter and full year guidance are subject to forward prospects for new investments and market conditions.

As Jay discussed, 2020 was a year of unprecedented events and change, and we've remained focused on establishing new partnerships, supporting growth initiatives at our existing Affiliates, positioning our balance sheet for future growth and returning excess capital to shareholders through repurchases. We come into 2021 with even more conviction in our strategy and our ability to deploy capital to compound long-term earnings growth and create value for our shareholders.

Now we're happy to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Craig Siegenthaler with Credit Suisse.

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

So as we look at your pipeline of potential transactions, can you talk about the composition of both majority investments and also minority investments or some of these new growth capital type transactions that you guys have been pivoting into?

Jay C. Horgen - *Affiliated Managers Group, Inc. - CEO, President & Director*

Yes. Thanks, Craig. Thank you for the question. Let me start, and I'll get to the majority, minority and growth capital aspects of this. First thing I'd like to say is our model is resonating. It's evidenced by our four new investments we've made since the middle part of 2019. Each of these businesses are high quality businesses.

Obviously, the most important aspect of our investment thesis is to find the highest quality, independent, partner-owned firms. And we think we've done that for the most recent four. Each of them offer growth opportunities, and they each represent slightly different reasons for partnering with us.

In the case of Comvest, in particular, that was one where growth capital was a key consideration, and I'll come back to that in a moment. As we said in the prepared remarks, we do offer support throughout the whole life cycle of an Affiliate's needs. So our solution set today includes succession planning, which is a majority investment concept; minority investments, typically more for liquidity; growth capital; and distribution support. So across that framework, when you look at the most recent four investments, each of them [has chosen us for a different reason and] (added by company after the call) have taken advantage of our distribution support - signing up at the time of the transaction to go on to our global distribution platform.

In each case, these have all been minority stakes. I think that they came to us for various reasons, and that was the opportunity for us. But majority versus minority really depends more on the needs of the Affiliates or the prospects. And as we look at our current pipeline, we have a mix of both, and we would expect to do both over the medium term.

When I look at the pipeline generally, we do expect significant new investments over time, including in the near term. We have put more resources to this effort. We, as I mentioned, have a broadened solution set, which is attracting a wider universe of prospects, especially those in need of either strategic capital or distribution support.

We have strong proprietary relationships, and the virtual environment is actually an advantage for us, given that we've maintained multiyear and even decade-long proprietary relationships with a large number of prospects. We're seeing increasing levels of engagement. Just using our own internal metrics, we've seen a pickup in activity since the third quarter.

And we're seeing a greater number of conversations, probably the greatest number in nearly a decade. It's also worth noting that our calling efforts are focused on areas of secular growth. That includes private markets, specialty fixed income, ESG, global equities and multi-asset solutions. These are all areas that have tailwinds and areas where active management can add value.

And as we've mentioned in the last several calls, we are being very disciplined in creating structures and pricing that aligns our interests and gives us the right combination of participation through incorporating a number of outcomes. And we've designed a model that enables us to execute multiple deals at a time or many deals in a year. And we can do that without the risk or cost of integration, given that we have a model that leaves independent firms independent, and our goal is to enhance and preserve the alignment of their partners and extend the duration of those businesses.

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 a couple of questions just in terms of the outlook. So I guess, first, in the fourth quarter, were there some impairments or write-downs for some of the one-off items in terms of your addbacks? And then just trying to separate out the beta in the strength, obviously in 2020 and that versus kind of the momentum in your business that you can control or your Affiliates control in terms of performance. So if you could highlight the areas of organic growth opportunity that you see as the most incremental in terms of improvement as you think about 2021 versus this past year.

Jay C. Horgen - *Affiliated Managers Group, Inc. - CEO, President & Director*

Yes. So I'm going to let Tom take the first part of your question, and then maybe I'll circle back, Dan. Thank you for your question.

Thomas M. Wojcik - *Affiliated Managers Group, Inc. - CFO*

Sure. Thanks, Dan. So on the impairment question, look, there wasn't really anything meaningful in the quarter, a couple of little things here and there, and you saw our guidance for the first quarter going back to the $40 million level, so not much to speak of there.

In terms of the overall growth opportunities, you touched specifically on organic growth, and I'll share a couple of things, and I'm sure Jay will give some more color. But remember, for us, it's really going to be a combination of organic growth, performance and performance fees being driven by that great performance in our business, the ability to make new investments in growing areas, both from an earnings growth perspective and an organic growth perspective, and then allocating our capital [including through] (added by the company after the call) repurchases and the ability to drive our share count and, ultimately, earnings compounding through that as well.

So I think there are a number of areas beyond beta, frankly, where we're able to translate strong market performance through our capital allocation into long-term growth in a variety of areas in our business.

In terms of those areas where we are seeing significant momentum, both Jay and I touched on in our prepared remarks the number of areas where we see strong secular growth opportunities - private markets and illiquid alternatives, where businesses like Pantheon, Baring Asia, EIG and Comvest have seen very strong flows over the course of the past couple of years, continue to be in the market actively with new funds virtually at all times, given the diversity of those businesses. And we anticipate those businesses to continue to [collectively] (added by the company after the call) grow at double-digit rates organically into the future.

In specialty fixed income and traditional fixed income, we have a number of Affiliates who have very unique, high-performing products in those areas. Garda had an excellent year, Capula, GW&K on the muni side were, again, very strong. And then in wealth management, where we continue to see sticky, long duration flows coming in. So those areas have been strong over the last couple of years.

We anticipate them being strong into the future. And as I mentioned in my prepared remarks, and Jay spoke to as well, given the very strong and improving performance that we're seeing in our fundamental active equities book, where more than 80% of our assets are above benchmark over the 5-year period, we are starting to see some really nice trends in terms of core organic growth once you strip out quant and seasonality.

That number was positive overall for the business this quarter. And as you think about the kind of the environment for active today, coupled with the strong performance that we have, we do believe that we have very good tailwinds behind us in terms of flow opportunities in the future with respect to our active equities book.

Jay C. Horgen - *Affiliated Managers Group, Inc. - CEO, President & Director*

Yes. That was a good summary. I had a few things to add here, Dan. First, I recognize that our top line flows require you to do more work to get to the underlying growth of the business. We recognize that, and we're trying to help you get to that level. As Tom just mentioned, away from quantitative flows and seasonality, we would expect, and have already seen, the rest of our business in positive territory. But really away from that, because what is really hard to see is, we own different amounts of those Affiliates, and they have different structures and some of them often offer performance fees.

So maybe if I can share a perspective, which is that our AUM levels are near medium-term highs here, which generate significant management fees. Our non-quant flows have turned positive in the fourth quarter [excluding] (added by the company after the call) seasonality. We had new investments in 2020, and the full effect won't be seen until 2021, and that's in our guidance for those amounts. We are assuming a 10% performance fee [contribution] (added by the company after the call). Frankly, given high watermarks and the growth in some of our alternative products, it could be much greater than that.

If you kind of look at where Tom centered you in the midpoint of [approximately $910] (corrected by the company after the call) of EBITDA and $16.25 in economic earnings per share, that really does reflect relatively modest performance fee assumptions, just what we're seeing in our normal convention with management fees, the carryover effect of new investments and a modest level of capital deployment.

If we have new investments, purchase more shares or have higher performance fees, then you'd be looking at the very top of the range. So I do think that we have significant organic growth. It's just the benefit of it is hard to see because the immateriality of the AUM of the quant managers is obfuscating the underlying growth of the business.

Operator

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

William Raymond Katz - *Citigroup Inc., Research Division - MD & Global Head of Diversified Financials Sector*

Maybe just go the other way. As you look at your platform and trying to help investors sort of get to fundamental value of the company, seeing some of the other deals that happened in 2020, maybe a 2-part question. One is what's the concept of potentially selling some underperforming affiliates? And then can you talk to pricing a little bit, just given some of the strategic deals that have happened last year as well as the sort of the encroachment by SPACs into the business as well?

Jay C. Horgen - *Affiliated Managers Group, Inc. - CEO, President & Director*

Thanks, Bill, and good morning to you. Look, we have high conviction on our strategy, which is to be the partner of choice of independent partner-owned firms. We think that is the place where active is at its very best, where outperformance will be experienced by clients around the world. And we're seeing even some momentum in flows going towards active away from passive.

And so that's something that we're seeing. We have high conviction that the growth of our business is still in front of us [given that we are] (corrected by company after the call) continuing to execute our strategy by investing in existing Affiliates and investing in new Affiliates. I think you've heard us say, about 2 years ago, we engaged with a half dozen or so of our Affiliates that were facing headwinds to address issues and to work through those headwinds.

That's largely behind us now. It did lead to different ultimate resolutions strategically but that is because we worked with the partners, and it was ultimately driven by the partnerships, not AMG. That is behind us. I think that allowed us to free up capital and resources for our growth opportunities. You're seeing some of that come through our results now, and I think you'll see some of that come through our results in 2021.

As far as our stable of Affiliates, we have tremendous diversity in our business, as evidenced over the last 2-3 years and how we've come back with the profile that we have. We take a permanent partnership approach. And ultimately, we think that that is why Affiliates have chosen us. That is our uniqueness in the market. There really isn't anyone else like us, and we think that's what's going to drive value for shareholders.

Operator

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

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

So you have a fair amount of new investments plugging into global distribution. Could you maybe help us frame based on past experience of doing that maybe what the kind of time line is for seeing incremental flows from the new investment being made, getting plugged in the global distribution and then seeing new mandates result from that?

Jay C. Horgen - *Affiliated Managers Group, Inc. - CEO, President & Director*

Yes. Thanks, Patrick, and good morning. So look, distribution to AMG, it's a combination of the excellent sales efforts that exist at our individual Affiliates but also augmented by the complementary offering that we have purpose-built at AMG to help those Affiliates scale. I think you know this, we started our centralized distribution 10-15 years ago now.

We raised more than $100 billion for our Affiliates across product types and client segments. Each of these new Affiliates have come online. We've already started to raise assets for Garda and for Comvest. It does take a little time, and COVID slowed us down a bit in 2020, but we have raised assets. We have mandates in each case.

Both Jackson Square and Boston Common have joined our retail platform, and we'll be supporting their retail efforts there. So we do expect to generate flows for all 4 of those Affiliates in a relatively short period. I think we would expect over the next months and year to see [incremental] (added by the company after the call) flows maybe in each of those from work that we're doing at AMG.

But let me also mention why I think that's the case because we made a number of adjustments in the past 2 years. I think we've talked about this as well in addition to working with certain of our Affiliates that I mentioned a moment ago that were facing headwinds. We also adjusted our own platform and evolved our strategy and approach to the market to really focus on areas that are growing. [We pulled] (corrected by the company after the call) resources away from those areas that weren't [growing] (added by the company after the call), and added resources to areas that are.

So for example, in institutional, we've added resources on the private market side. We've broadened our alternative offering, and with Boston Common, we'll be offering an ESG product. We continue to look at the new regions that we would want to go into, and we do have open searches for more resources in areas that we think are going to grow. We are putting more effort towards those growth initiatives. So that gives us confidence in adding these 4 Affiliates as well as our existing Affiliate base.

On the U.S. retail and wealth side, we've struck a partnership with iCapital again to help us on alternatives. We've also added resources in technology and home office [sales] (added by company after the call) to really plug into the wirehouses where it's really an institutional sale, and then, ultimately, you need the sales support. We believe the U.S. retail channel is actually a huge opportunity for us, and we're going to continue to push forward in U.S. retail to drive value. You'll likely hear more from us on this. And as we make progress, we'll give you more details. But going back to your original question, I do see flows for each of these Affiliates in a relatively short 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*

I was hoping maybe to round out the organic growth discussion a little more. And given the strong momentum in the business, can you guys help us understand what the organic EBITDA growth for AMG is expected to be for '21? So again, excluding impact of market performance and any purchases of either new or existing Affiliates? And I guess, as investors try to evaluate sort of the longer-term growth profile of this company, can you, kind of understand pinpointing it to a single year might be difficult, but what is the organic EBITDA growth that you're ultimately aspiring to have over the next several years?

Jay C. Horgen - *Affiliated Managers Group, Inc. - CEO, President & Director*

Thanks, Alex. I'm going to let Tom answer that. Very nuanced and complicated question to answer, but Tom, I'll let you give it a shot.

Thomas M. Wojcik - *Affiliated Managers Group, Inc. - CFO*

Sure. Thanks for your question, Alex. The core organic EBITDA growth is obviously an important one. There's a lot that goes into that, particularly for a business like ours, where we do have a sizable performance fee component to a lot of these businesses. And also, frankly, we have a variety of different ownership and structural stakes in our underlying Affiliates. So it's not a stat that we've disclosed, but I think it's something that as you think about the overall mix of our business, you can probably get some visibility into.

If you think about where we stand today, the majority of the outflows we're seeing continue to be on the quant side. And while 95% of our outflows this quarter came in quant strategies, again, just to restate, that was only 3% of our EBITDA on a run rate basis.

I'd also note that it is worth pointing out that challenged quant AUM peaked in early 2018 and has basically been cut in half since then, meaning that any flow activity from here is coming off of a much smaller base. And I'd also note that we've seen some pretty strong performance over the last couple of months there. So hopefully, we can build on that going forward.

If you then look more broadly at the shape of our overall Affiliate base, across illiquids, wealth management and specialty fixed income, I think we've noted in the past, that's about 1/3 of our EBITDA today. It continues to grow as a percentage of our overall business. And then similarly, as you look to areas like liquid alternatives, ESG, global and emerging market equities, where we have very strong performance track records, and also where active management continues to provide a very strong value proposition to clients, we look at all of those areas as being places where we can see strong growth into the future.

And then similarly, I know you asked to exclude this, but I really don't think you can think about the AMG thesis without including the impact of new investments, both in terms of the earnings that they bring to our platform but, just as importantly, the fact that we're proactively investing in businesses and partnering with businesses that are delivering leading organic growth trends, given the secular areas that we're prosecuting when we really think about partnerships.

So when you put all those things together and you look at the overall shape of our business, I think we feel very strongly that over the intermediate to long term, the kind of footprint, if you will, of where our Affiliates operate, the client demand trends in those areas and their investment performance, should be in a position to drive organic AUM, EBITDA growth, etc., over the long term.

Jay C. Horgen - *Affiliated Managers Group, Inc. - CEO, President & Director*

Yes. And look, I even think we're well-positioned in the short term as well because the 3/4 of our fundamental equities and alternatives are beating benchmarks on a 5-year basis with similar strength on a 3-year basis. They distinguished themselves in 2020 in periods of volatility. So they're really well-positioned to take in organic growth.

Of course, we also mentioned that our private markets, our specialty fixed income and our wealth businesses have been strong for some time now. And so it is just a mix question - when does the mix turn in our favor? And it looks like it turned in the fourth quarter on an EBITDA basis. On a headline flow number, it didn't, but on an EBITDA basis, it's pretty close. And I think that's the reason for the optimism here. You could see the growth, it could be in the first quarter or it could be this year.

Operator

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

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

Sorry about that. I had it on mute. I guess, Jay, maybe just curious, I mean, you talked about how you differentiate from some others in the marketplace and your permanent solutions. Some of those other competitors, (inaudible) and others have been in place for a while now, have done multiple acquisitions. But are you starting to see at all that some -- maybe some of those managers who sell revenue shares or whatnot to some of those other funds out there are starting to say, "Hey, we need a more permanent solution now. It's been a while. That was fine for what it was." I mean, do you see that as a source of potential investments going forward?

Jay C. Horgen - *Affiliated Managers Group, Inc. - CEO, President & Director*

Thanks for your question, Rob. I'm going to get to that question. I actually realized that I'm going to throw structure and pricing in here too, because I think I failed to mention that in an earlier question. But if I can just take the overall universe of transactions that happened in asset management, which I think is important because there is a lot of activity in our industry right now. I think everybody knows it. There are some people who are divesting and there are some people who are trying to consolidate. Obviously, we are very focused on independent partner-owned firms and our model [looks] (added by the company after the call) to invest with and align our business with those firms in a way that supports them through the entire life cycle. So that is only a subset of transactions in the marketplace. We don't see our Affiliates really wanting to be consolidated.

They chose us because they did not want to be consolidated. And so I want to just leave that on the side because those are the types of transactions that we don't see appropriate for our business and probably really don't affect us. So a firm that might be independent which really wants to turn the keys over to someone else, that's not a transaction that we would do. So I think that's the starting place.

Now we're into the segment of the population of independent firms who don't want to sell out, who do want to remain independent. There, we have myriad competitors, but I will separate that group into illiquid managers and everything else. So if I say, let me focus on everything else, the competitive opportunity set for us is extremely great because there are very few competitors today.

Most of our traditional competitors have either been bought, consolidated, decided not to continue or are selling their business or assets. I think we all know those names that I just described. Because of that, in the non-illiquid side of the market, to say we're very differentiated is a complete understatement. There is very little competition. Structure and pricing is very attractive to us.

When you turn to illiquids, which I recognize is a very fast-growing area, and there are a number of stake buyers, and you've named one of them. They tend to take a term sheet approach to a 20% stake. And they're very passive, and that can be attractive just for financial returns for GPs in the illiquid space.

We take a life cycle approach. We're supporting partners at all stages of their growth. So we tend to be selected by partnerships that want or need more than just liquidity for a small portion of the GP.

So the direct answer to your question is, yes. It is possible that these stake buyer portfolio companies may turn to AMG for a different part of their life cycle. We obviously are disciplined. We do not chase valuations in this area. And when we do get selected in the case of Comvest, in the case of EIG, in the case of Baring Asia, in the case of Pantheon, it's for some other reason that is in addition to just price.

And therefore, when we think about those who select us in that situation, we see our offering as being differentiated relative to those stake buyers. So then let's go way back up, it is still a very fragmented industry. The opportunity for us is large. And as I mentioned, we've committed more resources, we have a broader solution, and we have proprietary relationships. So we see this growth aspect of our business being an increasingly important driver of our EBITDA in '21 and beyond.

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*

Most of my questions have been asked and answered. Maybe just one on the core EBITDA fee rate, Tom. It's been improving in the last 3 quarters, looks like from about 10 basis points to over 11 just in terms of the outlook coming into '21. I guess, what's your confidence that, that might further improve from the 11 basis points?

I know we do get a positive mix shift as we get -- given the quantitative outflows that are at a very low EBITDA fee rate. But you also mentioned, I think, lower corporate expenses in 4Q. So just trying to get a sense of that. And then also for Jackson Square, how much AUM did they add in the fourth quarter? I'm not sure if anything else was coming through in 1Q for that.

Thomas M. Wojcik - *Affiliated Managers Group, Inc. - CFO*

Great. Thanks, Brian. Let me try and hit a few of those. We have seen some positive trends in terms of the overall fee rate, if you will, with a lot of that being driven by strength in some of those core secular growth areas like illiquids and relative value fixed income. Also, frankly, the strength in markets and the outperformance at some of our active equity Affiliates like Harding Loevner and Veritas, continues to be quite positive for us.

And I think you mentioned the point around our management of expenses. As we've talked about a number of times in the past, I think we've taken a very hard look at the business. And we're really running very lean today in terms of making sure that all of our resources are put up against the best and highest use of capital, and we're driving toward growth. So I think those trends all feel like they are moving in the right direction. And I think, hopefully, we should continue to see that same type of impact as the business moves forward.

In terms of Jackson Square, about $10 billion came through our AUM. That was the only thing that was running through in the quarter. And again, that business continues to perform incredibly well, and we're very excited about that partnership.

Operator

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

Michael Roger Carrier - *BofA Securities, Research Division - Director*

Just given the strong performance fees in 4Q and your guidance in 1Q in '21, can you provide a bit more color on the base growth? And maybe some color around organic revenue growth versus the organic asset growth, whether for full year '20 or 4Q heading into '21, just given some of the fee rate nuances that you guys see?

Jay C. Horgen - *Affiliated Managers Group, Inc. - CEO, President & Director*

Yes. Tom, why don't you take that? I would just also mention the perspective we have in the first quarter just given the timing of reporting [at some of our Affiliates] (corrected by the company after the call).

Thomas M. Wojcik - *Affiliated Managers Group, Inc. - CFO*

Sure. So maybe a couple of words on performance fees to start. We do have a very diverse base of performance fee-generative Affiliates. They generally tend to contribute somewhere in the neighborhood of 10% of economic net income, and we were a little bit ahead of that last year at 11%. We've noted a midpoint of the range in our guidance at around 10% and, again, we think with some there is upside from here.

You can think about performance fees in 3 buckets: concentrated long-only, which will be impacted by a combination of security selection and markets; absolute return strategies, which include a variety of businesses like Garda, Capula, and Systematica, which have been performing very well amidst recent volatility; and then illiquids, where we continue to build a carried interest bank that will be an excellent longer-term opportunity for us.

Due to the diverse book from year to year, different Affiliates tend to contribute. But over the long term, we believe we have a very diverse base that's differentiated in terms of its ability to both deliver performance and then, ultimately, performance fees. And as we come into this year, we did give you guidance for a very strong first quarter. We've got pretty good visibility into a couple of Affiliates on the liquid alternative side which have put up very strong performance, and we'll see some crystallizations. And again, similar to our strong fourth quarter performance this year, we do have that seasonality where the first quarter and the fourth quarter tend to be our biggest performance fee-generative times of the year.

In terms of your other questions on our underlying growth, I think we touched on a lot of it, both in our prepared remarks and in some of the Q&A today. But really, you've got to think about a combination of things that are happening in our business. One, we saw very strong market performance in the back half of the year. We've experienced some of that in our results today. Much of it will continue to come through into the first quarter and into the run rate for the full year.

On top of that, we've seen very strong outperformance from a number of our active managers above and beyond what markets have provided. And we're seeing the benefit of that in both AUM as well as things like performance fees. You're seeing the impact as well from the overall allocation of our capital partially toward new investments, where Jay noted the transactions that we entered into last year. A couple of those happened towards the back end of the year, like Jackson Square, and the very beginning of this year with Boston Common.

So we're going to see the impact of those continue to flow through over the full year. And then obviously, the impact of our share repurchases on an economic earnings per share basis will be a continued tailwind. So you heard both Jay and me reference the power of compounding our earnings in our prepared remarks, and I think that's exactly what you're seeing.

And you're seeing it from a combination of the strength in our Affiliates' businesses, our ability to translate both that strength as well as the benefits of strong beta into capital allocation that can drive future growth. And then as I referenced in one of the previous questions, we are seeing very strong organic growth across a number of areas in our business as well as the potential for organic growth in a number of other areas that have been stable and are trending more and more positively.

So overall, I think we are very bullish in terms of our earnings run rate and momentum coming into the year and perhaps, just as importantly, our significant cash flow generation momentum coming into the year as well.

Jay C. Horgen - *Affiliated Managers Group, Inc. - CEO, President & Director*

Yes. And look, we didn't really get many questions on this, but we really improved our balance sheet last year. We doubled the duration of our balance sheet. We added some equity content to it.

From some of the repositioning that we did, we ended up with significant tax savings, which came through our economic earnings. They actually had hit our bank accounts towards the end of the year, which led to us buying more shares in the fourth quarter, which was very fortuitous because we ultimately elevated our share repurchases right into good performance. And that's why we're indicating to you that we're going to do 200 or maybe north of that.

And then if you just look at our balance sheet today, we have $1 billion of cash in the cash and equivalents section of our balance sheet. Now, that's not all ours. Typically, it's about half that is ours, but that is a significant number as we flex into the first half of the year.

And we would like to, as Tom said, increase our growth investments this year, which we've allocated in our budgeting but is not in our numbers. And then what we do expect is something in the neighborhood of $500 [million in repurchases] (added by the company after the call), with an elevated first quarter for the year. Could it be more than that? Sure, it could be more than that. So there is real upside to the range that we've given, given the momentum of our business.

Operator

Our final question this morning comes from the line of Chris Shutler with William Blair.

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

It's been a while since you did a deal in the wealth management space, and I know valuations there can be tricky right now given all the competition. But are you seeing any opportunities there? Or alternatively, are there ways to distinguish yourself from other buyers in that space? And then another quick one, just on the guidance. I just wanted to get the market blend they're using for the first quarter.

Jay C. Horgen - *Affiliated Managers Group, Inc. - CEO, President & Director*

So let me take the first one. Tom, maybe you can follow up on the market blend. So yes, Chris, thanks for your question. We are still very actively looking at wealth businesses. We actually continue to have an investment in Wealth Capital Partners, a minority investment.

They are very actively acquiring. And so we've actually benefited from their growth as well. We have had some [wealth managers] (added by the company after the call) in our pipeline. We continue to have some in our pipeline. You're right, valuations are tricky. What's interesting, though, is that for some of the larger scale ones, the needs are different than just a high price and in part being part of a roll-up strategy. So we are competing well there.

And while I would say that the concentration is lower than other areas that we are focused on like illiquids and ESG, we do have some in our pipeline. But I would say that we do offer a differentiated solution with a permanent partnership for businesses that are already scaled and where they're looking to either extend or they're going through succession planning, that is where we differentiate ourselves. Tom?

Thomas M. Wojcik - *Affiliated Managers Group, Inc. - CFO*

And just a quick answer on your other question. We're assuming 2.5% in terms of our market blend as of Friday.

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. - CEO, President & Director*

Thank you all again for joining us this morning. AMG had a strong finish to 2020. But as discussed, the earnings power of our business has increased considerably, and we remain focused on the significant growth opportunities ahead of us. I hope everyone remains safe and healthy, and we look forward to speaking with you next quarter. Thank you.

Operator

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