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EDITED TRANSCRIPT

AMG - Q1 2020 Affiliated Managers Group Inc Earnings Call

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

OVERVIEW:

Co. reported 1Q20 economic EPS of $3.16.

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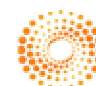

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PRESENTATION

Operator

Greetings, and welcome to the AMG First Quarter 2020 Earnings Conference Call. (Operator Instructions) As a reminder, this conference is being recorded. I would now like to turn the conference over to your host, Anjali Aggarwal, Vice President, Investor Relations for AMG. Thank you. You may begin.

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

Thank you for joining AMG to discuss our results for the first quarter of 2020. During this call, certain matters discussed will constitute forward-looking statements. Our actual results could differ materially from those projected due to a number of factors, including those referenced in our Form 10-K and other SEC filings. We assume no obligation to update any forward-looking statements made during this call. AMG will provide on the Investor Relations section of its website a replay of this call, a copy of our earnings release as well as a reconciliation of any non-GAAP financial measures, including any earnings guidance announced on this call. As a reminder, we posted an updated investor presentation on our website this morning and encourage investors to consult our site regularly for updated information.

With us on the line 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. Before I begin our discussion on our results and forward prospects, I would like to say on a personal note that I sincerely hope that everyone on the call today is well and that you and your families are healthy and safe. Our thoughts are with those most affected by the virus and we remain focused on the health and well-being of the individuals and families at AMG, our Affiliates and the community at large. This is an extremely challenging time for all of us. The COVID-19 crisis is impacting all elements of the world in which we live and work, and it has had a profound effect on the economy and financial markets.

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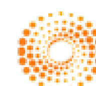

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Given the nature of our decentralized operations and our entrepreneurial culture, we and our Affiliates remain fully operational and have experienced minimal disruption in continuing to serve our key stakeholders, most importantly, our clients. We are operating in a time of tremendous uncertainty, and no one knows when the economy and markets are going to recover or what changes in behavior may shape that recovery. And while this uncertainty will likely remain for some time, I am confident in our ability to navigate through the challenges we face to find unique growth opportunities amid dislocation and to emerge as an even stronger organization in the future.

Our business and our Affiliates have been tested before as has our management team, through extremely volatile periods like the Global Financial Crisis, 9/11 and dot-com bubble - and while this crisis will be different, through the strength and diversity of our business, together with the quality of our partner-owned Affiliates, AMG has an opportunity to prove once again to clients worldwide the value of independent active management in periods of dislocation and volatility - as well as an opportunity to deliver the benefits of AMG's differentiated partnership approach to our shareholders.

While volatility in markets and asset levels may have a near-term impact on quarterly results, our primary focus has been on the potential depth and duration of the economic downturn and its impact on the execution of our long-term strategy. As you would expect, we have a plan for all aspects of our business across a range of potential outcomes, and we are focused on maximizing our ability to execute on our strategy through an extended downturn. Even with lower asset levels, our business and our balance sheet continue to be well positioned. We enhanced our financial flexibility coming into this period, through a number of strategic decisions over the last couple of years, including the repositioning initiatives we implemented in 2019, and we further aligned our management team with our shareholders - all of which I'll elaborate on in a moment.

Stepping back, as we think about our business in the context of the current crisis, let me first discuss the unique advantages our Affiliates have in leading clients through challenging times. In addition, I'll touch on the structural advantages of our model and how these attributes afford us the ability to invest for growth in all environments. AMG has built its business over the past quarter century on the principle that independent active boutiques have unique competitive advantages in delivering market-leading returns to clients, including and especially during times of volatility, as demonstrated in our recently published study: The Independent Boutique Advantage in Volatile Environments. With excellent long-term performance records, outstanding reputations and superior client engagement, our Affiliates are recognized globally as being among the leaders in their respective investment disciplines. They have highly focused investment-centric operating cultures and as equity owners in their firms, our Affiliate partners have ultimate accountability - in stark contrast to passive indexing. Such entrepreneurial cultures typically attract the very best talent - principals who invest their own money alongside clients and truly experience both the risk and reward in their investment decisions. Therefore, in times of significant volatility, independent boutiques are better positioned to protect capital and pivot quickly to the areas of greatest opportunity.

And while the full impact of this crisis on the economy is still in its early days, our Affiliates are generating strong performance across a number of strategies. Our global managers, including Harding Loevner, GW&K and Veritas are generating strong relative performance in their products and are opportunistically considering new product development. Our value managers, most notably Yacktman and Tweedy, Browne, significantly outperformed peers during the quarter and are well-positioned to capture future inflows given top-quartile performance. And finally, our alternative managers, including Capula, Garda and Systematica, have delivered strong returns and are benefiting from increased client allocations and a renewed appreciation for their uncorrelated return streams.

This collective strength across our Affiliates is a direct result of nearly three decades of successful and deliberate execution of our strategy: to invest in leading independent partner-owned active boutiques through a proven partnership approach. We have built a business that is scaled and broadly diversified across products, investment styles and distribution channels. And given our diversity, the quality of our Affiliates and our unique partnership structure, AMG is able to capitalize on long-term growth across cycles and also benefit from stability in times of market stress.

Turning to our results for the quarter. AMG reported Economic earnings per share of $3.16 for the first quarter of 2020, down 3% year-over-year. Consistent with recent quarters, outflows were driven almost entirely by certain quantitative strategies that contribute only a low single-digit percentage of our run rate EBITDA. The stability of our financial results against the backdrop of the crisis reflects not only the strength of our business position, but also the strategic actions we took in 2019 to reposition certain Affiliates and our business, and to align our resources and capital with growth opportunities. While these efforts are largely complete, we continue to collaborate with a select few Affiliates to position their businesses for future success and optimize outcome for their partners and clients.

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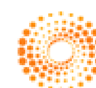

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Looking ahead, as we evaluate the potential duration and severity of the economic downturn, we are focused on continuing to position our business to operate effectively and create value across a range of potential scenarios. Our balance sheet is a critical component of that [strategic planning] (corrected by company after the call), and as a result of many years of focus on creating capacity and flexibility, it is also a source of significant strength. Our capital flexibility, together with the cash flow generated by our business, create a distinct competitive advantage in the current environment.

While challenging markets require a careful execution, they often present unique opportunities. As many of you will remember, in the period following the global financial crisis, we made some of our most successful new investments, and we anticipate seeing similarly attractive opportunities over the coming quarters and years as businesses, individual partners and corporate owners reassess their strategic and financial needs. This will take time to play out, and it will require capital and resources to execute - and we will remain focused and disciplined on partnering with businesses well-aligned with our strategy.

As you saw earlier in the quarter, we established a new partnership with Comvest, a leading middle-market private credit and private equity manager with a long track record of delivering returns to clients across market cycles. We structured our partnership with Comvest to fund our investment over time, and in line with the growth of their business - which enables AMG to put more capital to work in higher growth scenarios and provides a level of protection in lower growth scenarios. As we continue to align pricing and structure to a range of future outcomes, this disciplined approach to capital allocation will result in higher returns across our entire opportunity set. More broadly on New Investments, given market volatility in recent events, this is a natural time for us to take a step back and reassess, in particular, as the environment is changing rapidly and because we anticipate seeing a favorable impact on pricing, structure and our opportunity set as a result. We will be disciplined, focused and patient with our capital deployment as we explore partnership opportunities in this environment.

In addition, we continue to selectively evaluate opportunities to invest in our existing Affiliates, enhancing their ability to meet evolving client needs, and in centralized capabilities to further enhance our Affiliates' growth potential. We have been in active dialogue with our Affiliate partners regarding distribution, launching new products, opportunistic lift-outs and ongoing succession plans. We also continue to seek strategic partnerships that leverage the collective strength of AMG's relationships on behalf of our Affiliates.

To that end, during the quarter, we established a strategic relationship with iCapital, a distribution technology platform building on our momentum in fundraising across our Affiliates' alternative products. And as we have said in the past, we remain committed to efficiently returning excess capital to shareholders. Against the backdrop of dislocation in equity markets, we have made the decision to reallocate the remaining capital that we have set-aside for dividends in 2020 in favor of share repurchases, which Tom will describe in a moment.

As I stated earlier, while there is tremendous uncertainty, we are confident that our business will successfully weather this challenging period. Given the environment, we believe that active management, in particular, when executed by independent partner-owned firms, is more relevant and important now than ever before. And AMG's approach and track record in partnering with these businesses remains unmatched in our industry. Our partnership approach resonates deeply with entrepreneurial management teams who are completely aligned with their clients, and we anticipate our opportunity set across new and existing Affiliates to grow significantly.

And finally, over the past year, our Board has taken actions to further enhance the alignment of our directors and executives with shareholders, building ownership through changes in our equity programs. Further evidencing our collective confidence in the business, members of our Board and management team have been active buyers of the stock in the open market in recent months. I have personally purchased AMG shares in each of the last three quarters and plan to continue to purchase this quarter given my view of our forward growth prospects.

Looking ahead, it is with this ownership mindset that we will execute on our strategy - and I am as confident as ever that we will emerge from this challenging time as an even stronger organization.

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

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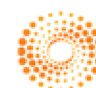

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Thomas M. Wojcik - *Affiliated Managers Group, Inc. - CFO*

Thank you, and good morning, everyone. Before I begin, I'd like to echo Jay's sentiments in recognizing that this is an extremely challenging time, and our thoughts are with all of those who have been impacted by the COVID-19 crisis. As Jay discussed, AMG is well-positioned to navigate the current environment given the quality and diversity of our Affiliates, our unique partnership structure and the strength and flexibility of our balance sheet. Taken together, these elements of our business create a distinct competitive advantage as we execute on our strategy to create long-term value for our shareholders.

Turning to the quarter and beginning with flows, against a historically volatile industry backdrop, AMG reported $13.8 billion of net client cash outflows, more than 90% of which were driven by certain quantitative strategies across liquid alternatives and long-only equities that today contribute a low single-digit percentage of our EBITDA on a run-rate basis. While near-term flow headwinds in certain quantitative strategies may persist, in aggregate, our Affiliates continue to improve their performance track records in this volatile period, especially relative to passive indexing. We believe this outperformance is directly attributable to their independent ownership structures and alignment with clients, and the strong performance we are seeing across our fundamental managers - from equities to relative value fixed income, to illiquid alternatives - creates significant opportunity for future growth, both in the form of net inflows and long-term earnings growth.

Turning to flows by asset class, in Alternatives, we reported net outflows of $2.5 billion, which was impacted by $7 billion in net outflows in certain quantitative products. We continue to benefit from strong client demand in illiquid alternatives, with more than $3 billion in net inflows with ongoing fundraising at Pantheon, Baring Asia and EIG during the quarter, along with increasing momentum at Comvest, the most recent addition to our private markets Affiliates. The significant dry powder from recent capital raises at each of these illiquid managers will enable them to put money to work at attractive return levels and raise additional opportunistic funds.

We also continue to see strong performance in net inflows in our relative value fixed income strategies at Capula and Garda, and in light of the current opportunity set, they are selectively opening up capacity in new and existing strategies to capitalize on market dislocation.

And finally, we believe our recently announced strategic relationship with iCapital will enhance Affiliate access to technology-enabled distribution of alternative products to retail and high-net worth clients, further adding to fundraising momentum and alternatives, and again, demonstrating our commitment to delivering the benefits of scale to our Affiliates.

Moving to equities, overall, our Affiliates continue to generate strong long-term performance, especially in fundamental strategies with more than 80% of our AUM ahead of benchmark over a 5-year period. In global equities, outflows totaled $6.8 billion primarily driven by quantitative strategies. In fundamental strategies, we saw only modest outflows against the backdrop of significant industry derisking as our Affiliates continued to deliver strong performance. Several of our largest Affiliates, including Harding Loevner, Tweedy, Browne and Veritas are once again distinguishing themselves in this period and delivering excellent risk management and relative returns for clients. In U.S. equities, we reported net outflows of $4.3 billion, nearly half of which were driven by quantitative products.

Our value managers, most notably Yacktman and Beutel Goodman, significantly outperformed peers during the quarter and now have several funds in the top quartile over the 3 and 5-year period. In aggregate, as you can see in our investor presentation, our U.S. equity performance improved significantly given the strong performance generated by our Affiliates in value strategies. Multi-Asset and Fixed Income flows were stable in the quarter despite significant industry outflows in these categories. We continue to see positive momentum in fixed income products at GW&K, Artemis and AQR and remain well positioned against long-term client trends in specialty fixed income and wealth management.

Turning to financials. As you saw in the press release, we updated our EBITDA and Economic Net Income calculations to exclude the impact of non-cash gains and losses on GP and seed capital investments as part of our continued focus on incorporating shareholder feedback to enhance our financial disclosure.

With respect to our results for the quarter, adjusted EBITDA of $200 million included $18 million of performance fees primarily related to funds with year-end performance measurement periods and $6 million in FX gains. Adjusted EBITDA declined 7% year-over-year driven by lower market and average AUM levels, as well as lower contributions from certain quantitative strategies versus a year ago, partially offset by the strategic actions we took in 2019 to reallocate resources and rationalize our footprint.

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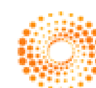

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Economic net income was down 10% year-over-year due to higher cash taxes and interest expense while first quarter economic earnings per share declined 3% to $3.16, reflecting the impact of share repurchases.

As we look forward to the remainder of the year, we continue to take a disciplined approach to managing discretionary expenses and expect further reductions year-over-year, with costs naturally coming down given our virtual operating environment as well as discretion over variable compensation expense. More broadly, the vast majority of our partnerships with Affiliates are structured as revenue shares, where AMG is not exposed to operating expenses.

Now moving to specific modeling items. While markets have, of course, been incredibly volatile, based on current AUM levels, which reflect our market blend of 3% thus far in the quarter, we expect Adjusted EBITDA in the second quarter to be approximately $160 million, including seasonally lower performance fees of approximately $3 million. Excluding the seasonal impact of performance fees and the FX item I previously noted, the expected change in second quarter EBITDA of approximately 10% primarily reflect the impact of the first quarter decline in markets on our average AUM. The resilience in our earnings this quarter and our forward guidance reflects the diversity and strength of our Affiliates and the structural stability inherent in our unique partnership model.

Our share of interest expense was $20 million for the first quarter, and we expect second quarter interest expense to be approximately $22 million. Our share of reported amortization and impairments was $196 million for the first quarter, including $179 million related to equity method Affiliates. This includes a $140 million non-cash expense reflecting the reduction in the carrying value of a non-U.S. alternative Affiliate. We expect this line item to return to more normalized levels in the second quarter of approximately $55 million. Our effective GAAP and cash tax rates were not meaningful in the first quarter, primarily given the impact of the non-cash item I just mentioned. For modeling purposes, we expect our GAAP and cash tax rates to be approximately 25% and 18%, respectively, going forward. Intangible-related deferred taxes were negative $31 million in the first quarter, primarily given the impact of the non-cash item previously noted, and we expect intangible-related deferred taxes to return to more normalized levels in the second quarter of approximately $6 million. Other economic items were $2 million and included $3 million of GP and seed capital investment gains.

Going forward, we anticipate that other economic items will be more volatile given the inclusion of these noncash gains or losses. In the second quarter, for modeling purposes, we expect other economic items to be $1 million. Our adjusted weighted average share count for the first quarter was 47.8 million, and we expect share count to be approximately 47 million for the second quarter.

Finally, turning to the balance sheet and capital allocation. As Jay discussed, our capital position remains strong and stable as a result of many years of focus on simplifying our balance sheet, extending duration, increasing capacity and lowering our cost of capital. We have actively stress tested our business and our balance sheet and taken steps to enhance liquidity to be prepared to weather potential further market pressures associated with the COVID-19 crisis, as well as to maintain financial flexibility to invest in attractive future growth opportunities. We have access to substantial liquidity, most prominently in the form of our revolver, and we have the ability to draw the full $1.25 billion without impacting covenants.

Notwithstanding this capacity, we continue to manage our leverage ratio prudently and consistent with an investment grade rating, and we are currently operating at approximately 2x debt to EBITDA. During the quarter, we returned $85 million of capital to shareholders, including $70 million in share repurchases. Given the opportunities we see to invest in our business, along with our desire to continue to return excess capital to shareholders as efficiently as possible, we are resetting our quarterly dividend to $0.01 per share. In lieu of dividend payments, we will reallocate the remaining $50 million of capital towards share repurchases over the balance of the year. In the coming quarters, we would also expect to repurchase additional shares beyond that $50 million, subject to forward prospects for new investments and market conditions.

Our core strategy is partnering with excellent, independent boutique managers. Our ability to successfully execute our strategy requires both experience and capital - especially in times like this - and we will take a disciplined approach in allocating capital to the highest risk-adjusted return opportunities available to us.

As past experience has taught us, these opportunities do not necessarily present themselves consistently every quarter, and we are focused on leveraging the strength of our business and the flexibility of our balance sheet to maximize returns to our shareholders over time. Now we are happy to take your questions.

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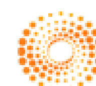

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QUESTIONS AND ANSWERS

Operator

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

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

There was a 37% drop in redeemable noncontrolling interest on the balance sheet. I'm just wondering, can you talk about what drove the decline in estimated value for affiliate equity repurchase obligations? And then also on an annual basis, when you think about 2020, what's really the maximum level of put-backs that AMG could experience this year?

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

Yes. Thanks, Craig. Nice to hear your voice. I'm going to let Tom take the balance sheet item, and then I'll come back and talk about our model more generally.

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

Sure. Thanks for the question, Craig. So as a reminder, RNCI reflects the fair market value of equity that Affiliate partners can sell to AMG. We came into this year, as we've mentioned in the past, expecting Affiliate equity repurchases to be a little bit higher than in past years. Just to give you some context, that number has generally run in the $100 to $150 million level. We expect it to be more in the $200 million level this year given a few historical transactions and we indicated that in some of our disclosure.

Given the market declines that we saw in the first quarter as well as some of the Affiliate equity repurchases we made in the first quarter, we saw a pretty significant decline in the RNCI balance of [a little bit more than $300 million] (corrected by company after the call). So you should think about that as our overall obligation going forward has come down quite a bit, partially because we paid a fair amount of it and partially because given the impact of markets and the earnings on those businesses, the value of those repurchases comes down as well.

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

Thanks, Tom. And then, Craig, to take it up one level. As you know, equity transition and succession planning is the very core of what we do at AMG. We have a well-designed program of recycling that occurs over a generation, [generally] (added by company after the call) 10 to 15 years. We do have good visibility on these transactions, and we have good protections as they adjust for market conditions as they've done this quarter. So our model of alignment is being proven out once again.

The other important thing to note is as we got into this period of the crisis, we did see partners decide not to put. That is where they had discretion and where they weren't retiring. And we think that's a very positive statement about the future with regards to our alignment model. This structure works, and as markets evolve, this balance sheet item reflects that.

Operator

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

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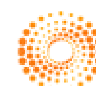

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Christopher Charles Shutler - *William Blair & Company L.L.C., Research Division - Research Analyst*

Could you elaborate on the structure of the Comvest deal again and should we expect you to use that same structure much more going forward?

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

Yes. Thanks, Chris. Really appreciate the question. As I said in my prepared remarks, we have and we continue to evolve our structure over time as we have experienced different scenarios ourselves with new investments over the last 25 years. And I think I carefully noted that this evolved approach, [involving] (added by company after the call) both pricing and structure over multiple outcomes is something we do, and we have applied both in the case of Comvest and also Garda. As you look forward, I think you will see continued effort on structuring over a multi-year period which allows us to not only invest more capital in these growing firms, but also protects us in cases of lower growth. That again, was the case with Garda. And in the case of Garda, in particular, given its very strong 2019 and very strong 2020, it has led to significant upside above our original estimate on how that business would perform. It's early days with Comvest, but they are actively growing their business. We're already helping them in global distribution, and the feedback has been very favorable. We look forward to putting more capital to work as it grows.

Operator

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

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

So I guess the question that I have is the revenue share certainly helps protect you guys, but I mean, are there any instances where some Affiliates, just given the sharp downdraft or trying to run at a place where maybe the revenue share is not functioning as you both intended; in terms of starting to cut into -- obviously cuts into their share, the minority and owner share? But any place where you feel like that's running into an issue? Obviously, you got rid of Hartwell and some others where maybe that would have been a problem, but any place that that needs to be restructured?

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

Yes. Thanks, Rob. The vast majority of our Affiliates have grown over time, as you know. And in particular, off the back of a 10-year bull market, our largest Affiliates or even most of our smaller Affiliates have grown significantly since our original revenue share agreement, which means that they've created significant margin under the revenue share. I think you know how that works. And it is in these times of volatility and even declines in markets where that creates a substantial amount of cushion for us. So our business during this period, even at the very lowest point, was handling as you would expect. And I think it speaks to the stability of our business model, our ability to invest through a cycle, and frankly be flexible, nimble and opportunistic in periods of dislocation.

You did mention one Affiliate where we took an opportunity to work with them as partners to find the very best outcome for their clients. And we mentioned this on our last call, that in 2019, we took actions to reposition our business and also work with certain Affiliates to align their businesses with success.

As I also mentioned in my prepared remarks, this is largely complete, but we are working with a select few additional Affiliates to achieve optimal outcomes. As you know, given our operating autonomy model and our partnership approach, ultimately, it's the Affiliate partners who make their own business decisions, and we work with those partners in a collaborative way to find solutions and support them to determine the best outcome for their businesses and their clients.

As I said, we're largely through that process. It started in 2019. We feel good that we started that way ahead of the current crisis. So we and our Affiliates are in a really good position strategically.

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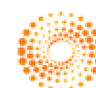

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What I think is an opportunity, given our scale, is that we found solutions for a number of these businesses with other Affiliates. And you mentioned Hartwell, which has now partnered with Wealth Partners Capital Group, another business that we have an investment in; as well as Trilogy, if you remember, with GW&K. I do think we will see other opportunities like this with Affiliates that are facing headwinds as an opportunity for us, those partners and their clients to find the very best outcomes.

Operator

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

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

Just maybe coming back to capital management. Just as you sort of think about the business on a go-forward basis, can you talk about the use of leverage to fund transactions and what kind of leverage ratio you think you might be willing to sustain?

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

Yes. Thanks, Bill. Let me have Tom start that, and then I will take you back through our history and talk about our capital allocation strategy generally. But maybe, Tom, start specifically with the balance sheet.

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

Yes. So thanks, Jay, and thanks for the question, Bill. I think I'll start with the balance sheet and also give a little bit of color on the dividend and then turn it back to Jay. But specific to the balance sheet, as we said in our prepared remarks, we've been planning for an environment like this for years. We've been very proactive in terms of enhancing capacity, in terms of lowering our cost of capital, in terms of increasing duration and really just ensuring we have the best terms in the market on our debt. And as a result, we feel like we have tremendous flexibility coming into this period whether that's to make new investments or to return capital or even just to weather things if the environment gets significantly worse.

Over the last couple of months, we've taken further steps to make sure we have even more flexibility, primarily just through holding more cash. With respect to constraints, we really only have a single leverage covenant, which is on our bank debt. And as I said in my prepared remarks, we have substantial cushion there, and we can effectively draw our entire $1.25 billion revolver without any issues. That said, to your question, we do have a solid investment-grade rating, which affords us good access to capital and is important to our business.

And I think as we consider whether we would operate at a higher level, I think for the right strategic opportunities, we feel very comfortable operating at a higher level of leverage for a discrete period of time. But purely for a financial engineering perspective, that's not something we're going to do. It's really a strategic decision.

Maybe quickly on the dividend, just before I turn it back to Jay. I do want to be very clear on the dividend, this is a capital deployment decision. This is not a balance sheet decision. Our balance sheet is strong. It's liquid, and we generate a tremendous amount of cash flow in our business. So the dividend was really a strategic decision to optimize how we deploy that cash flow.

To put the whole thing in perspective, we paid about $60 million in dividends last year. And that's actually not a very big number in the context of our cash flow generation, and certainly, it's not a very big number at all in the context of our balance sheet. But with our stock around $60 a share, it is an amount that can have a meaningful impact from a repurchase perspective. So given the level of our yield, we're not really a core income holding for our shareholders. And in the current environment, thinking about the dividend, frankly as shareholders and as owners of the business ourselves, we really believe that the repurchases are a much better use of our long-term capital today, so we're allocating or reallocating that incremental $50 million of capital toward repurchases.

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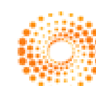

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And as I said in my prepared remarks, we do expect to make additional repurchases beyond that over the course of the year, depending on market conditions and also the prospects for new investments going forward.

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

Yes. Thanks, Tom. I want to echo Tom's statement. This was simply a relative choice to repurchase in lieu of dividends. And I like Tom's phrase there. We are taking an ownership mindset and we did receive feedback from our shareholders. We think this is a positive action for the benefit of all shareholders.

As I promised, let me take a step back and talk about capital allocation more broadly. We do take a long-term approach to our capital structure and capital allocation. I also agree with Tom that the idea of slightly more leverage is not a problem as long as we have high conviction around the new investment opportunity. But ultimately, we would bring that leverage ratio back down as we benefit from the cash flow of that new investment opportunity. It's not a financial engineering concept, it's really a strategic concept. We have historically operated between 2x and 3x leverage in the most recent half decade to 7 years. We've brought that ratio down to 2x, even under 2x for moments in time. We like the 2x leverage ratio. Again, we can go above it. We like staying investment grade. I think those are all important aspects to how we access capital markets for efficiency.

In line with our strategy, which we have continued to communicate, our first priority is to invest in growth primarily through new investments as well as existing Affiliates, and then of course after that, return excess capital to shareholders, which we've done. Moving into this period, in the last call, we commented that we see growth opportunities growing as a percentage of our capital deployment. We still see that. Clearly, we're in a time of dislocation. And as I mentioned, we've been through times of dislocation before, probably more than we all had hoped that we would experience. Though that experience tells us that we see unique opportunities from dislocation. They don't happen immediately. You have to be ready, patient, and prepared. I do think that our proprietary relationship calling in our existing pipeline is advantageous and differentiated for us because in the world of social distancing, creating new relationships is going to be more difficult and our existing multi-decade relationships will prove to be very valuable in this period. I also think having a longer-term view of capital structure and capital deployment will also help us.

As Tom said, we have substantial capacity both from our revolver as well as the cash flow from our business. And as we see opportunities come up in the new investment arena, we would like to make those, of course, with the discipline and structuring that I described earlier in Chris' question. As many of you remember, on the heels of the global financial crisis, AMG had one of our most productive periods. We made investments in Harding Loevner, GW&K, Artemis and Pantheon. A number of those are our largest Affiliates today. And so we anticipate that we'll see similarly attractive opportunities over the coming quarters and years. And therefore, we positioned, as Tom said, for years, our balance sheet to take advantage of this type of environment.

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*

Just maybe another one around the balance sheet. Can you guys talk a little bit about the background on increased debt in the quarter? And as we look out into the put-back answer you guys answered earlier with respect to about $200 million this year, assuming steady markets, does that amount sort of peak this year or just given kind of divesting schedule among your Affiliates, does it continue to grow into next year? And if you guys can give us a flavor on which Affiliates are likely to be more active that would be helpful.

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

Yes. So thank you, Alex. I appreciate the question. We're going to take that as one question, and I'll let Tom walk you through it.

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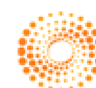

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Thomas M. Wojcik - *Affiliated Managers Group, Inc. - CFO*

Thanks, Alex. So just with respect to the change in debt levels in the quarter. I mentioned previously that we put a tremendous amount of value in our model on cash in the ordinary course. And if you think about it, in times of uncertainty, there's no asset more valuable than cash. And in times when you see tremendous future opportunity, there's no asset more valuable than cash. So we did draw a little bit on our revolver, which is something we've done historically, just to make sure that we have more cash on hand in order to be opportunistic and in order to be nimble as unique opportunities present themselves.

Also I'd note that cost of capital is at an all-time low, so the carrying cost of that for us is very manageable relative to the nimbleness, opportunity and flexibility it gives us to operate in this environment.

Shifting to your question on Affiliate repurchases. This was an elevated year. We knew that coming in. As we think about next year, we do expect the number to come down fairly substantially. This year's number will probably be something in the 200 range. That's versus 150-ish over the last couple of years and 100-ish in the years prior to that. I think looking into 2021, you're certainly going to come back into that historical range. So there was a bit of a spike this year. And with respect to who the Affiliates are, I won't go into the names, but there's a positive bias, if you will, in a lot of ways to our Affiliate repurchases because it tends to be those businesses that have grown the most since the time we've made the investment, and therefore, have had the best investment performance, have had the greatest inflows, have been the most successful that we tend to be buying back more of. So ultimately, we end up owning more of some of our best businesses, and we get to experience the cash flows of those businesses at very attractive valuations.

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

Yes. I'll just note that we did come into this period as you will remember from the last call with a significant pipeline of new investments, and we still have that pipeline. Of course, we are taking a step back and making sure that we know what the forward view looks like. But the point I was trying to make, and this really gets to the heart of the cash draws, we wanted to make sure that we were ready, and we still want to make sure we're ready in environment to execute on really high-quality partner-owned new investments.

Operator

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

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

Just one more just in terms of the capital. Can you just run through your commitments over the next, say, like, 12 to 24 months and how that stacks up relative to your cash flow and capital levels? And more importantly, what it means with the amount of flexibility that you have for buybacks or strategic deals over that time.

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

Yes. So thanks, Mike. Let me take that one. I think I'm going to take it at the higher level. Because, as Tom mentioned, we got through the known recycling transactions that we just described, our forward outlook for cash outlay is going down with respect to the internal resources necessary in the business. So it really comes to pivoting to new investments, and if there are no additional growth opportunities, return of capital. Those are our main 2 choices over the short-to-medium term. We do expect opportunities from new investments and we'll be disciplined and careful in terms of that capital deployment, and we do expect to do additional repurchases, but first and foremost, we're focused on being able to execute on new investments.

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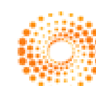

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Going up one more level, we positioned ourselves to be able to execute on significant new investments with the way we handle our balance sheet. The revolver itself is a longer-dated revolver. I think we have at least 3 years left on that revolver before we would consider redoing it. And then when you look at the cash that is generated from the business, the combination of those 2, let us execute on substantial new investment opportunities.

The point that Tom had made earlier, that for strategic reasons, we would consider going above our long-term capital structure level, and we have done that in the past in the global financial crisis with the new investment activity. After that, we did bring our leverage ratio just a touch below 3x. Those were levels of a much smaller company. But I think today, we would be willing to go to 2.5x to be able to execute on new investments. So we do have substantial capacity and substantial liquidity to do so.

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*

So maybe shift the topic over to organic growth. Maybe if you could just talk a little bit about the current rundown. I know that it may be difficult to sort of ring-fence that amount, but I would imagine that is -- the risk to future outflows is ebbing. I think you said these strategies are now low single-digit percentage of EBITDA. So maybe for the outlook into the second quarter of $160 million EBITDA, what is your assumption on those quant strategies contribution in that quarter? And then if you can just give us a flavor of the flow outlook as we've sort of come into second quarter, whether we think we're improving with a little bit more of a risk on the market here, at least in April?

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

Yes. Thanks, Brian. And I'm going to let Tom make sure that I answer all of your questions, because I'm going to talk about what we're seeing with clients generally, and then I'll answer the question around quantitative strategies and their contribution. As you probably are hearing in your own research, when you have these moments of uncertainty and asset dislocation, there is generally a number of stages that clients go through. And the first stage is a bit of a freezing of the market. And that is what we saw initially in mid-March. We also had the additional complexity here of a new work-from-home environment. So to some extent, it wasn't just a freezing of the market, it was people getting readjusted with their home offices and communicating virtually, not physically, and that happened across institutional and retail clients.

Broadly speaking, we did see some de-risking in retail as you would expect. Frankly, it wasn't as bad as we would have thought. On the institutional side, after we got through the work-from-home logistics, we actually saw some modest repositioning of assets, which was favorable to our fundamental managers. As time has moved on, the environment has settled down a bit, and we are seeing clients further adjust. Activity has picked up. We've seen closings on the illiquid side into April. We have seen some reallocation occur into our fundamental managers, especially those who have distinguished themselves during this period.

I think one of the opportunities of volatility and dislocation, of course, is our ability through our Affiliates to capitalize on the volatility. We have seen Affiliates distinguish themselves in this environment. I think we named some of them in our prepared remarks. We also have recently come out with our published study on how independent partner-owned boutiques performed during volatile periods. It's a quick read. It's on our website, but it does prove out that in all periods, independent partner-owned firms outperform, but especially during volatile periods. And we're seeing that play out amongst our alternative managers: Capula, Garda Systematica; our fundamental managers: Harding Loevner, Tweedy, Browne, Veritas, Yacktman. Even our illiquid managers who have gone through substantial fundraising over the last 2 years have a tremendous amount of dry powder. And as I just mentioned, each of them are continuing to close in existing and new fundraising activities in the month of April. So we're very optimistic about the distinguishing qualities of independent active partner-owned firms in this period. That said, the area where we see outflows is in the quantitative strategies across both alternative and long-only. As Tom said, that was over 90% of our outflows this quarter. If the trends continue, we would say 90% plus in the second quarter. I think the only silver lining to that is the contribution is a very low single-digit number. So in that $160-ish million estimate that Tom gave you, we would expect it to be very little.

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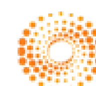

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Operator

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

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

So my question kind of dovetails with the outlook for new investments plus kind of capital return. So just curious about the makeup of the pipeline today. I would assume closing or executing on a new investment is difficult given the environment that we're in. But as we kind of go through this year, if we do not see new investments, should we be thinking about increased repurchases beyond the $50 million you've quantified for the remainder of this year? And I guess, one more on just the pipeline. Can you talk about the scope or size of potential new investments given the last couple of deals have been small in terms of AUM? Or can you kind of talk about the range of potential new investments you have in that pipeline currently?

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

Yes. Thanks, Dan. So I'll take you back to last quarter on the pre-COVID crisis call. Our pipeline had been gaining momentum as we had described. At that point, we were in advanced discussions with a number of high-quality prospects. One of them we obviously transacted, which was Comvest, and then we had a number of others in the latest stage of the pipeline.

Those businesses do not go away. I will remind you of a story of Artemis. They were in our pipeline going into the global financial crisis, and it took us about 18 months, but we ultimately transacted on that. So these things don't go away, and it really requires the environment to settle to make sure that, as investors, we are reflecting the forward look. And as partners get comfortable with that environment, they also are comfortable with the partnership because these are partnerships that are done over generations, as I mentioned. And so they don't go away because of market dislocation, but market stability does help us come together as partners.

We also think that new opportunities will be created in this environment as shareholders, corporate sellers even, reassess their strategic needs. So we want to be mindful of our whole opportunity set. It does take some time to develop and evolve. That's why we'll be patient with our capital. That said, and just to clarify what Tom said, is we do expect additional repurchases over the capital set aside for dividends above the $50 million level. The amount, of course, and the extent and timing of it will depend on new investments, but we do expect additional repurchases.

Operator

Thank you. Ladies and gentlemen, that concludes the time we have allowed for questions. 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. While the environment has been challenging, difficult markets yield compelling opportunities. And we remain confident in our forward prospects, and we'll continue to actively position our business for future growth. 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.

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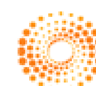

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