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AMG.N - Q3 2024 Affiliated Managers Group Inc Earnings Call

EVENT DATE/TIME: NOVEMBER 04, 2024 / 1:30PM GMT

OVERVIEW:

Company Summary

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PRESENTATION

Operator

Greetings, and welcome to the AMG third quarter 2024 earnings call. (Operator Instructions) As a reminder, this conference is being recorded. I would now like to turn the conference over to your host, Patricia Figueroa, Head of Investor Relations for AMG. Thank you. You may begin.

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

Good morning, and thank you for joining us today to discuss AMG's results for the third quarter of 2024. Before we begin, I'd like to remind you that during this call, we may make a number of forward-looking statements, which could differ from our actual results materially, and AMG assumes no obligation to update these statements.

Also, please note that nothing on this call constitutes an offer of any products, investment vehicles, or services of any AMG Affiliates. A replay of today's call will be available on the Investor Relations section of our website, along with a copy of our earnings release and a reconciliation of any non-GAAP financial measures, including any earnings guidance announced on this call. In addition, this morning, we posted an updated investor presentation to our website and encourage investors to consult our site regularly for updated information.

With us today to discuss the company's results for the quarter are Jay Horgen, President and Chief Executive Officer; Tom Wojcik, Chief Operating Officer; and Dava Ritchea, Chief Financial Officer. With that, I'll turn the call over to Jay.

Jay Horgen *- Affiliated Managers Group Inc - President, Chief Executive Officer, Director*

Thanks, Patricia, and good morning, everyone. AMG delivered another quarter of strong results. with 18% growth in economic earnings per share, reflecting the ongoing momentum in our business and the positive impact of our capital allocation strategy.

Our growth strategy continues to drive the evolution of our business mix towards secular growth areas with alternative strategies meaningfully and increasingly contributing to AMG's earnings. The ongoing demand for our specialized private market strategies accelerated in the quarter as evidenced by the $7 billion in new capital raised at Pantheon, Forbion, EIG, Peppertree, and Comvest.

In addition, our liquid alternative strategies generated positive flows in the quarter, and we see opportunities for organic growth, particularly at AQR as demand for tax aware alternative solutions in the US wealth channel continues to build. Stepping back, the growth investments we have strategically and deliberately made over the last several years have played a critical role in reshaping AMG's business profile.

Having invested our capital in firms and initiatives aligned with long-term growth trends, most notably in alternative firms operating in specialized areas where independent partner-owned firms thrive, AMG's Affiliates now manage more than $265 billion in client assets and alternative strategies, or approximately one-third of our AUM, split between private markets and liquid alternatives, which together generate approximately half of our EBITDA.

As we further shift AMG's business profile towards alternatives, we believe we are not only improving our long-term organic growth prospects but also enhancing the stability of our cash flow. By increasing our private markets exposure, we expect that the quantum and duration of locked-up capital in our business will grow. And as we expand and diversify our footprint in liquid alternatives, we expect that AMG's earnings power will be even more resilient across all stages of a market cycle.

In total, our Affiliates operate across private markets, liquid alternatives and differentiated long-only strategies. And this diversified portfolio of high-quality independent partner-owned firms is not only a distinct competitive advantage. It also supports our capacity to continue investing across our opportunity set in the areas of highest growth and return to benefit our shareholders.

AMG continues to be a beneficiary of the broad and increasing client demand for alternative strategies and I am especially excited about the democratization of alternative strategies in the wealth channel. AMG's US wealth platform is uniquely positioned to enable our Affiliates to capitalize on this trend as wealth investors increase their allocations to both private markets and liquid alternatives.

AMG has been a leader in product innovation, including through the seeding, packaging, and distribution of new private markets and liquid alternative solutions. Throughout 2024, we have continued to build on our success in the wealth channel, including through the launches of a number of new alternative strategies in this attractive client segment.

Today, we have more than $5 billion in assets from alternative products on AMG's US wealth platform. And looking ahead, we expect to continue to scale our excellent existing product lineup and introduce new innovative products while also accessing new clients and platforms outside the US through AMG's strategic relationships.

More broadly, in addition to working with our Affiliates on their product growth opportunities, AMG's ongoing strategic collaboration continues to position our Affiliates for enhanced long-term success across a range of areas, including business development, and strategic planning, capital formation, distribution, product development, succession planning, and incentive alignment.

As we continue to deploy our capabilities to enhance our Affiliates' long-term success, we will further distinguish AMG as a strategic partner to prospective new Affiliates. Our proven ability to magnify the competitive advantages of partner-owned firms, while also preserving their independence, continues to differentiate AMG's partnership model and is highly valued by prospective Affiliates.

Since the beginning of the year, we have advanced our new investment pipeline, including several opportunities that are now in the later stages of discussion, and our broader transaction pipeline of potential new investments remain strong.

AMG's business profile is evolving, and our opportunities to invest for growth are expanding. Given the strength of our balance sheet and significant ongoing liquidity, we have ample capital flexibility to both execute on these growth opportunities and continue to repurchase our shares. And as always, we will remain disciplined as we evaluate capital allocation decisions.

As I reflect on the progress we have made over the past five years, each element of our growth strategy, investing in new Affiliate partnerships, investing in our existing Affiliates, and investing in AMG's capabilities to magnify our Affiliate success is driving the evolution of our distinctive business profile towards secular growth areas. And as we continue to execute on our strategy, we see increasing opportunities to create meaningful additional shareholder value over time. And with that, I'll turn it over to Tom.

Thomas Wojcik - *Affiliated Managers Group Inc - Chief Operating Officer*

Thank you, Jay, and good morning, everyone. AMG's business profile continues to evolve, driven by the strong organic growth of our Affiliates managing alternative strategies, the increasing EBITDA contribution from new investments made over the past few years, and our enhanced strategic capabilities, including product development and capital formation.

In the third quarter, our net client cash outflows of $3 billion were a significant improvement compared to the year-ago period. AMG's organic growth story continues to be bifurcated with strength in private markets fundraising and ongoing client demand for alternatives more broadly, offset by industry headwinds and active equities. We expect organic growth in alternatives to continue, and together with investments in both new and existing Affiliates, especially through product development and distribution, we will continue to actively evolve our business mix towards secular growth areas, which will in turn further enhance our long-term organic growth profile over time.

Our private markets Affiliates generated $7 billion in net inflows in the quarter, bringing year-to-date fundraising to $18 billion and representing an annualized organic growth rate of more than 20%. In the quarter, a number of our Affiliate strategies exceeded their fundraising targets, including some of our most recent partnerships like Peppertree in the digital communication infrastructure space, and Forbion in biotech and life sciences.

The fundraising momentum of AMG's dedicated private markets Affiliates reflects investors' conviction in their specialist investment strategies and the positive fundamentals of their sectors. We also generated positive flows in liquid alternative strategies, an area where we are seeing increasing opportunities for organic growth.

As clients continue to focus on portfolio construction to address the changing market environment and more fully recognize the value of these strategies in their portfolios, we expect increasing allocations to liquid alternatives. Within differentiated long-only strategies, we saw net outflows of approximately $10 billion in equities and flat flows in multi-asset and fixed income.

Despite continued industry headwinds, our Affiliates managing differentiated long-only strategies have built enduring franchises with specialized investment expertise and long-term track records across market cycles. And as client demand trends continue to evolve, we are collaborating with our Affiliates on developing new vehicles, including active ETFs to optimize the delivery of their strategies to clients.

Our long-term flow profile continues to improve. And given our ongoing focus and strategy to evolve our business mix, we expect stronger and more predictable organic growth trends to materialize over time. Over the last several years, AMG has broadened its strategic capabilities to magnify Affiliates’ efforts, most prominently in product development and capital formation, and we are seeing tangible results.

Our ongoing collaboration with Affiliates on capital formation initiatives is driving a number of exciting developments that position our Affiliates for long-term success and accelerate AMG's growing exposure to alternatives.

We recently filed for the public offering of the AMG Comvest Senior Lending Fund, a BDC where the combination of Comvest's excellent direct lending track record and AMG's demonstrated success in scaling private markets products in US wealth facilitated raising more than $500 million in seed capital, which positions us to hit the ground running in the RIA channel early next year with a diversified, scaled portfolio.

The fund is expected to be the fourth Evergreen alternative solution on AMG's US wealth platform in addition to the select Affiliate drawdown offerings represented by AMG Wealth. We also recently concluded a second successful seed round for the AMG Pantheon Credit Solutions Fund and are concurrently in the market, helping Pantheon sell similar private credit secondaries-focused solutions, including on a large wirehouse platform.

Our continued collaboration with Affiliates to develop and support alternative products for the US wealth market drove more than $0.5 billion of net inflows in the quarter, including at the AMG Pantheon fund, one of the largest and most established private markets product in the channel, which has grown its assets under management to more than $4 billion, nearly doubling over the last 12 months.

And we continue to work with our Affiliates to bring new products to market to capitalize on the multi-decade growth opportunity in alternatives in US wealth. AMG's growth strategy across new investments, investments in existing Affiliates and investments to enhance our capabilities, especially in capital formation, is driving the evolution of our business mix toward secular growth areas.

Over the last five years, our EBITDA contribution from alternative strategies has grown from one-third to approximately half and as we continue to execute on our strategy, we expect the contribution from alternatives to further increase. With that, I'll turn the call over to Dava to discuss our third quarter results and guidance.

Dava Ritchea - *Affiliated Managers Group Inc - Chief Financial Officer*

Thank you, Tom, and good morning, everyone. We continue to see strong momentum in our business given increasing average assets under management, the continued evolution of our business mix towards areas of secular demand and the strength of our balance sheet.

Taken together, these factors provide us with the continued capacity to execute on investments in growth areas and return capital to shareholders. In the third quarter, we had adjusted EBITDA of $214 million, up 3% year over year, which included $5 million in net performance fee earnings. These results primarily reflect higher earnings driven by growth in average AUM for the period and recent new investments that contributed to our results.

This was offset by lower net performance fees and private market catch-up fees in the quarter compared to Q3 2023. Economic earnings per share of $4.82 further benefited from the impact of share repurchases and grew 18% year over year. Now moving to fourth quarter guidance where a reconciliation slide has been posted to the Investor Relations section of our website, where you can find detailed modeling items for the fourth quarter.

We expect adjusted EBITDA to be in the range of $260 million and $270 million. This is based on current AUM levels, reflecting our market blend, which was down 1% quarter to date as of Friday, and it includes net performance fee earnings of approximately $50 million. We expect fourth quarter economic earnings per share to be between $5.94 and $6.17 assuming an adjusted weighted average share count of 31.3 million shares for the quarter.

Stepping back, let's put fourth quarter guidance in the context of our expected full year results and go-forward expectations. Our full year performance fees are anticipated to be below our historical average of $150 million due to the underperformance at certain absolute return strategies.

However, we remain confident that performance fees will continue to meaningfully contribute to our earnings over the long term, especially since we expect a growing contribution from carried interest from private market strategies in the future.

Additionally, the core foundational drivers of our business continue to improve. Our approximately $730 billion in AUM is at the highest level we've seen in more than two years. Our Q3 economic earnings per share, excluding performance fees grew at nearly 25% year over year.

Our balance sheet and capacity to execute on our growth strategy are as strong as they've ever been. And these factors have set us up for continued momentum and growth in earnings and are a direct result of the strategy we have been executing in shifting our business towards areas of secular growth.

Finally, turning to the balance sheet and capital allocation. In the third quarter, we repurchased $103 million in shares. And on a year-to-date basis, we have now repurchased approximately $580 million or 10% of our shares outstanding.

For the full year 2024, we expect to repurchase approximately $700 million in shares, subject to market conditions and new investment activity. In the quarter, we continued to strengthen our balance sheet and extend the duration of our debt maturities by issuing a 10-year $400 million institutional bond and using the majority of the proceeds to pay down our floating rate term loan.

Our debt profile is in an excellent position with an average duration of more than 20 years. And given our current cash and investment portfolio, we have the ability to repay all debt maturities through 2034. With the recurring annual cash flow generated by our business, the strength of our balance sheet and long-dated capital structure, and our current leverage position, we have ample capital flexibility to not only make growth investments in new and existing Affiliates but also continue to return capital to shareholders.

Looking ahead, given our disciplined capital allocation framework and distinct competitive advantages, we remain well positioned to execute on our growth strategy and generate shareholder value over time. Now we are happy to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Bill Katz, TD Cowen.

Bill Katz - *TD Cowen - Analyst*

I appreciate the updated commentary. Just trying to triangulate between your commentary around the pipeline in further seasoning and Dava, it sounds like you're now sort of at $700 million of buyback versus maybe something a bit higher than that.

How do we think about capital deployment from here? There's been a ton of transactions around you and AMG has not been sort of as visible. So just trying to understand where are we in terms of the pipeline and then maybe capital allocation as we look out to '25?

Jay Horgen - *Affiliated Managers Group Inc - President, Chief Executive Officer, Director*

Yeah. Thanks, Bill, and good morning. I'll take the new investment side of it and then ask Dava to talk about our capital deployment and repurchases. So to your question on pipeline and seasoning, you heard in my prepared remarks, we have continued to advance our pipeline throughout this year. We now have several opportunities in the later stages.

When we look at this pipeline, I would say the quality is very high, the potential partnerships, both in private markets and liquid alternatives would be kind of as we look at it, that would be the composition and we're obviously trying to gain more exposure to the secular growth trends, and we think that, that is expressed in our current pipeline.

The timing of it is, as we all know, it really happens when they happen. Most of them will take an orderly approach. And I think, in some ways, it really just depends on each unique situation. So I guess they're all bespoke. I think the good news is we progressed some steadily throughout the year, and that's why in my prepared remarks, I said a few are in the later stages.

Broadly, though, the pipeline remains robust. So even at the front end and middle of our pipeline, we have the potential for additional new Affiliate transactions. So kind of all stages, and we're feeling good about that. When you think about maybe our competitive positioning, I would say our competitive positioning is very strong.

And really because of a couple of things, I think you're aware of, most importantly, as businesses have evolved here over the last decade, independent firms really need a more engaged partner, someone who can help them be both strategic, while also preserving their independence. And in our minds, AMG is the best partner to offer both the benefits of maybe a large consolidator, but for us, we leave them independent and we're also differentiated relative to the passive financial buyers.

So if you want someone who can help magnify your successes and be strategic, but also preserve your independence and alignment, that would be AMG. So we feel like our competitive positioning is very good. We think that's why firms are choosing us.

And so we're very constructive on our pipeline from here. And I'll just mention that, that it has been in our minds when we look at our repurchase activity. So I won't steal Dava's thunder here, but it has been something that we're monitoring as our pipeline is relatively robust. But maybe I'll let Dava add to it.

Dava Ritchea - *Affiliated Managers Group Inc - Chief Financial Officer*

Great. Thanks, Jay. So as you know, we've been consistently buying back our shares over the last several years, averaging roughly $500 million and about 10% per year. This year, given a combination of factors that can help us to take a more opportunistic view on repurchases, we significantly increased both the pace and quantum of our repurchases.

Through the third quarter, we repurchased $580 million in shares and are on track to repurchase about $700 million in 2024, which will be the largest share repurchase year in our history. We have a disciplined capital allocation strategy to deploy capital to the areas of highest growth and return.

And as Jay just mentioned, we feel really good about our new investment prospects in the near term. So we are incorporating the potential need for capital to execute on our growth strategy with share repurchases in the near term. In addition, any share repurchases will be subject to market and price consideration.

We'll provide some more color on 2025 expectations on our Q4 call. But what I can say is that as we're closing the year, we're in a very strong capital position and have ample flexibility to continue to execute both on our growth strategy and to continue to repurchase shares. Thanks for the question, Bill.

Operator

Alex Blostein, Goldman Sachs.

Alex Blostein - *The Goldman Sachs Group, Inc. - Analyst*

I was hoping we could double-click into the performance fee guidance and just kind of maybe flesh out a little bit on what specific absolute return strategies have struggled this year. Any implication for high watermark as we sort of start to think about 2025?

And the flip side of that, I guess, you talked about private markets contributing more to the bottom line in terms of carry over time. I was wondering if you could help us frame what that accrued carry balances are in terms of the flow-through to AMG's bottom line?

Dava Ritchea - *Affiliated Managers Group Inc - Chief Financial Officer*

Sure. Thanks, Alex. I'll take this one. So as I said in my prepared remarks, we currently expect to be below our five-year average of about $150 million of performance fees, given more challenged investment performance at some of those absolute return strategies, specifically within our trend following strategies.

We continue to think $150 million is a good through a cycle expectation of our annual performance fees, but we could see some softening in this number, given some of the performance challenges within some of these absolute return strategies this period. But as you know, there's a lot of time between now and when these strategies would crystallize the 2025 performance fees. Let me just take a minute to step back on performance fees in general.

So we do have a highly diversified and complementary set of performance fee generating assets totaling about $200 billion across a dozen Affiliates across beta-sensitive, absolute return, and private market strategies. And performance fee earnings are an important part of our business and all of those performance fee earnings for us are reported on a realized basis.

So that's real cash to us that we can use to execute on our growth strategy. And in a year like 2024, where performance fees are expected to come in a bit lower, our core business fundamentals continue to improve, which highlights the diversification and complementary nature of these performance fees to our overall business.

Of course, there's still a couple of months left in the year, and there's a number of significant macro events on the horizon that could impact markets in different ways, so things overall could change. but we remain confident in our ability to drive those performance fee earnings to contribute to earnings power over the long term.

With regard to carried interest, typically, when we purchase our private market Affiliates, we don't buy in the ground carry when we're making these new investments. And so it tends to be a longer-term opportunity for us to start to play into that carry. And we expect their contributions to performance fees to increase naturally a bit over time for us.

Operator

Dan Fannon, Jefferies.

Dan Fannon - *Jefferies & Company Inc. - Analyst*

Just following up on that previous line of questioning. So specifically, what we're -- what has carried interest in 2024, your kind of expectation of that range or contribution. And obviously, do you think it's going to scale going forward. But curious as to what you expect this year. And then also just on the liquid strategy, you talked about increased demand.

So ultimately, maybe better flows for some of the AQR Tax Advantage products. So I want to get a little more color on what that type of AUM where that sits today? Are there performance fees attached to some of these products? Or are there liquid strategies that you are seeing demand that maybe don't correlate economically the same way to your existing book of business?

Jay Horgen - *Affiliated Managers Group Inc - President, Chief Executive Officer, Director*

Thanks for your question. I'm going to -- let me start just where Dava left off and see if I can add some color, and then maybe Tom can help me with your second part of your question. Just on carry. So Dava is right, we typically do not buy in the ground carry.

However, sort of the seasoning of our private markets businesses because over the last several years, we -- as you know, we've made a number of private markets investments. Comvest being one, Forbion, OCP Asia, we had most recently Ara. So we're starting to see next fund that got raised after we made the investment start to pay out. We do have some carry this year.

We had a little last year. It's expected to grow both on its own, but as a percentage over time. It's hard to predict, obviously, because it has a lot to do with exits and the way the fund structures work. But we do see carry being a greater percentage of our performance fee opportunity going forward.

In any one year, it's a combination of absolute return, beta-sensitive, we even have some long-only businesses that have some performance fees and then, of course, carry. So I think the benefit for us is as we look across the sort of average $150 million that Dava mentioned is kind of our best estimate as to what we think a typical year would be without understanding exactly what the macro environment is for that year.

So I think that's the work that we've done on that. I might just say one other thing just on the private markets and liquid alternatives kind of flow profile because if you look at the capital that we've raised in both of those areas, the opportunity for performance fees grows as the AUM grows.

And so I'll turn it to Tom to talk a little bit more about some of the liquid alternative strategies, namely maybe AQR. But the reality is as those assets come into those firms in liquid alternatives and in private markets, just the opportunity set is greater going forward.

Thomas Wojcik - *Affiliated Managers Group Inc - Chief Operating Officer*

Yeah. Thanks, Jay, and thanks for your question, Dan. I think to get to your specific question on some of the tax advantage product, that shows up in alternatives and shows up in our high net worth channel from a client-type perspective. We have seen really nice growth there. You've seen some press around what AQR has been doing as well as some others in the industry.

And I think that there's a lot of focus on after-tax returns with respect to wealth management generally. So I think this plays into a really important overall macro theme. So that's been an excellent growth opportunity in the last couple of years. We expect to continue to see a lot of growth as well as a lot of innovation coming from firms like AQR as they continue to think about delivering those types of outcomes for end clients.

Jay Horgen - *Affiliated Managers Group Inc - President, Chief Executive Officer, Director*

Yeah. And let me just say one other thing on AQR. The overall investment performance there is significantly improved and is strong, and that obviously bodes well for flows, liquid alternatives has become a greater percentage of their business, so that plays out in their business mix and their average fee rates and the opportunity for performance fees.

And then as Tom said, the tax aware business is very innovative. And the reality is putting tax aware into a liquid alts strategy, it sort of makes them more interesting, more maybe slightly more sophisticated than the first generation of tax-aware products. So that innovation is paying off for them. and we're seeing significant growth in the assets.

So we're pretty excited about what's happening at AQR, and we're pretty excited about the liquid alternatives business generally. Thanks a lot for your question.

Operator

Brian Bedell, Deutsche Bank.

Brian Bedell - *Deutsche Bank AG - Analyst*

Great. If I can ask about a little bit more detail on the democratization pipeline for new products being launched across your private Affiliates. Maybe if you could talk about -- maybe how much do you think you can scale that I think you mentioned $5 billion on the wealth platform.

And in terms of potentially like for perpetual products, maybe if you can talk about the idea of raising performance fees from -- or getting performance fees from perpetual products, maybe to what extent are they contributing now? And then to what extent do you think that can become a very meaningful part of your performance fee pipeline going forward?

Thomas Wojcik - *Affiliated Managers Group Inc - Chief Operating Officer*

Thanks, Brian. So look, as you know, we're really excited about the US wealth opportunity. Our main strategy at AMG is to partner with independent firms and magnify their advantages. And this is right in the sweet spot of a way that we can do that and really do it in a way that no one else in the industry can.

And as part of our strategy, we're collaborating with our Affiliates on a number of growth opportunities, investing capital and resources into new strategies, creating new products, and trying to connect them more directly with clients in US wealth.

We have a vertically integrated US wealth platform. I think that's really important -- everything from product development through to touching end clients and then having the underlying risk management and operating platform to be able to support that ecosystem.

And that enables our Affiliates to access the large and growing wealth market in a way that would be extremely difficult for any independent firm to do on its own given just the scale and resources that are required to be effective in that channel.

We've been very successful in bringing Affiliate strategies to market through this platform. And a lot of that success is based on having launched one of the first ever evergreen funds in the private equity space several years ago, the AMG Pantheon fund which, as we mentioned, is now north of $4 billion in AUM and roughly doubled over the course of the past 12 months.

Just this year alone, in 2024, we've also invested alongside our Affiliates to bring several new products to the market. That includes seeding a new Pantheon private equity fund for the non US wealth market in a SICAV wrapper, partnering with Pantheon to launch, seed, and distribute the first private credit secondaries fund in the US wealth space.

And that's called the AMG Pantheon Credit Solutions Fund. And there, we recently completed a successful second seed round, and we'll see more momentum in that product going forward into 2025. We partnered with Systematica to launch and seed a new trend following fund to be able to extend their reach in the US Wealth.

And as I mentioned in my prepared remarks, we also filed for the public offering of the AMG Comvest Senior Lending Fund which is a BDC, where the combination of Comvest's excellent direct lending track record and AMG's demonstrated success in scaling private market products in US wealth allowed us to raise more than $500 million in seed capital to get that product started. You mentioned the $5 billion number. I think what's important, too, is thinking about where we've come from.

You go back two to three years, that number was about $1 billion. So we've seen substantial growth in scaling in the platform, and we think that we can see that growth in scaling continue, one, through the growth of those products that I just listed, but two, with our product development team continuing to bring new products to market.

First, through our existing Affiliates and the existing investment IP that they have but also a lot of what Jay talked about in terms of the strength of our new investment pipeline and the attractiveness of the AMG model, lots of opportunities that we see on the horizon to bring in new Affiliates, where we see that one plus one equals three type opportunity where AMG can really help to create the next leg of the stool for a new Affiliate by getting them into the US wealth business in a really meaningful way.

You asked about perpetual products and about performance fees, of course, with respect to perpetual products, I just walked through a number of different wrappers that we're using from tender funds to interval funds to BDCs and we have a lot of expertise within our team to think about all of the innovation that we're seeing in wrappers.

Certain of those products are eligible to generate performance fees. It really depends on the nature of the product and the nature of the returns that come out of that product and ultimately, the end client that they're associated with. But we do see that as being a future further diversifier and contributor to our performance fee stream.

And then lastly, I'd say when you just think about why AMG and our Affiliates are so well-positioned to do this, having a 30-year plus track record of being in the US wealth space, obviously, starting in the mutual fund space and now over time evolving into one of the leading players in private markets having a big balance sheet and being able to put our balance sheet behind and seed some of these new products, having a product development capability that really understands the market and is front and center and some of the new innovation that we're seeing.

And then most importantly, having this unique investment capabilities that exist at our Affiliates puts us in a very special place in the ecosystem. We're seeing a lot of growth today, and we see this platform scaling tremendously over the course of the next 5 to 10 years.

Operator

Patrick Davitt, Autonomous Research.

Patrick Davitt - *Autonomous Research LLP - Analyst*

Is there any reason that the 4Q flow seasonality and/or annual rebalancing would be different than what we usually see at AMG and in the industry and in that vein, given market highs and most people's view that alternative realizations are going to pick up, do you think we should be modeling more of an AUM headwind from alternative distributions from here?

Thomas Wojcik - *Affiliated Managers Group Inc - Chief Operating Officer*

Thanks for your question, Patrick. I think it's a little early still to think about year-end seasonality. We haven't seen anything thus far in our conversations with Affiliates or clients that suggest there should be a materially different pattern to what we've seen in past years.

But as you know, seasonality in the fourth quarter at AMG is relatively muted. It's not a dramatic driver. We'll certainly call out what we do see. But I wouldn't expect it, particularly as our business shifts more and more towards alternatives over time. I wouldn't necessarily expect it to be of the same magnitude that you would see in a very mutual fund heavy business like we see with others in the industry or, frankly, in some ways, even like AMG may have looked 10 years ago.

With respect to the overall opportunity in alternatives regarding realizations, as I mentioned in some of my prepared remarks, we're seeing incredible strength in fundraising. We've seen more than 20% annualized organic growth thus far in our Affiliate fundraising.

So certainly, as you see the return of positive market environment and a more positive environment for realizations generally our Affiliates will look to take advantage of that. But I don't view it as a material headwind to the long-term growth that we're seeing in the overall size and quality of that alternative and in particular, private markets segment of our business.

Jay Horgen - *Affiliated Managers Group Inc - President, Chief Executive Officer, Director*

And just to add on to that last point. Per the other conversation we had around carry, just the nuance here is when you see some realizations from AMG, it's a bit more nuanced because some of those are on older funds that we did not own any carry.

So most of the opportunity set for us going forward for both the fee, the net management fee earnings but also the performance fee earnings are coming from the flows that you're seeing us raise now. And so the opportunity for earnings power is growing.

I think the last thing I just want to note, and we've said it several times in different ways, and I guess I've said it may be in the past, too, which is the liquid alternatives area is super unique for us because in volatile and choppy times, generally speaking, you would see that part of our business perform well. And in past kind of bull markets and near market highs, when that pullback occurred, for example, in 2022, that was one of our stronger years in performance fee earnings.

So we like the diversified nature of our business, but also in some ways, the lower correlation or inversely correlated aspect of some of our strategies.

Thomas Wojcik - *Affiliated Managers Group Inc - Chief Operating Officer*

And Patrick, maybe just one quick additional point with respect to realizations. We have talked about just the differentiated nature of AMG's private market exposures things like life sciences, decarbonization, private equity, multifamily real estate.

So we have less of a concentration to regular way private equity and leveraged buyouts, which is where a lot of the slowdown in realizations has taken place. Given the fact that we've had these more specialized exposures, we've continued to see pretty good DPIs, pretty good realizations through the cycle, which has in part been contributing to why our fundraising has remained so strong.

So I agree with your point that we will likely see more realizations in the industry, but maybe less of a rate of change for AMG given we've already seen pretty strong performance here.

Operator

Thank you. Ladies and gentlemen, this concludes our Q&A session and thus concludes our call today. We thank you for your interest and participation. You may now disconnect your lines.
