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AMG.N - Q4 2024 Affiliated Managers Group Inc Earnings Call

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## OVERVIEW:

Company Summary

## CORPORATE PARTICIPANTS

**Patricia Figueroa** *Affiliated Managers Group Inc - Head of Investor Relations*

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

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

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

## CONFERENCE CALL PARTICIPANTS

**Trevor Dodds** *Jefferies LLC - Analyst*

**Bill Katz** *TD Cowen - Analyst*

**Luke Bianculli** *Goldman Sachs - Analyst*

## PRESENTATION

### Operator

Greetings and welcome to AMG fourth-quarter 2024 earnings conference call. (Operator Instructions)

As a reminder, this conference is being recorded. It is now my pleasure to introduce your host, Patricia Figueroa, Head of Investor Relations. Thank you. Please begin.

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**Patricia Figueroa** - *Affiliated Managers Group Inc - Head of Investor Relations*

Good morning and thank you for joining us today to discuss AMG's results for the fourth quarter and full year 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 Affiliate.

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 encouraged investors to consult our site regularly for updated information.

With us today to discuss the company's results for the quarter and full year 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.

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

Thanks, Patricia, and good morning everyone. AMG delivered record economic earnings per share in 2024, with full year earnings up 10% year over year, reflecting the ongoing evolution of our business and the positive impact of our disciplined capital allocation strategy. In 2024, we continued to strategically evolve AMG. Increasing our exposure to alternatives, which further enhances our long-term growth prospects.

Our private market Affiliates raised approximately \$24 billion during the year, reflecting the ongoing demand for our Affiliates' specialized strategies. Throughout the year, we continued to invest our capital and resources alongside our Affiliates, especially in collaboration with our Affiliates to develop new products for the U.S. wealth channel, including additional innovative alternative solutions across private markets and liquid alternatives.

AMG's unique model continues to attract outstanding firms seeking a strategic partner. This morning we announced a minority investment in a new Affiliate, NorthBridge Partners, a private markets manager specializing in industrial logistics real estate. The demand for real estate associated with last-mile logistics continues to grow, driven by the expanding digital economy and evolving supply chain dynamics.

Over the past decade, NorthBridge's experienced and entrepreneurial management team has delivered excellent performance for its LPs while also expanding its team, its geographical footprint, and diversifying its strategies. Taken together, the combination of these factors underpin NorthBridge's strong forward growth prospects. Our partnership with NorthBridge is in line with our strategy of investing in high-quality, independent firms operating in areas of secular growth, especially in private markets and liquid alternatives.

We believe that both private markets and liquid alternative strategies are well-positioned for future client demand and are areas where AMG's engagement and strategic capabilities can magnify our Affiliates' success.

The NorthBridge team chose AMG because they were seeking a strategic partner that could provide both growth capital and proven capabilities to support the development of their business, while also actively preserving their independence.

More broadly, our new investment pipeline remains strong, including several late stage opportunities, and we continue to focus on partner-owned firms operating in specialized areas of alternatives, given the incremental growth and further diversification that these firms can bring to AMG's overall business.

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. As we continue to execute on our strategy, investing our capital in firms and initiatives aligned with the long-term growth trends, we expect to accelerate the evolution of our exposures toward greater participation in alternatives, enhancing our long-term growth prospects and the stability of our cash flows.

By increasing our private market exposure, we expect the quantum and duration of long-locked capital in our business to grow. And as we expand and diversify our footprint and liquid alternatives, we expect that AMG's earnings power will be even more resilient across all stages of a market cycle.

Our diversified group of high-quality independent partner-owned firms, operating across private markets, liquid alternatives, and differentiated long-only strategies 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.

Our opportunities to invest for growth are expanding, and with our strong capital position we have ample capital flexibility to execute on our growth opportunities and also return capital through share repurchases. As always, we remain disciplined as we evaluate capital allocation decisions. AMG enters 2025 with significant momentum across our business. Each element of our growth strategy -- from investing in new Affiliate partnerships, to investing in existing Affiliates and investing in AMG's capabilities to magnify our Affiliates' success -- is driving the evolution of our business composition towards greater contribution of in-demand strategies. 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.

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

Thank you, Jay, and good morning, everyone. AMG's 2024 results reflect the ongoing evolution of our business, which has been driven by strategically allocating our capital and resources to areas of long-term secular growth. With continued strength in private markets fundraising, increasing

momentum in liquid alternatives, and expanding opportunities to invest for growth, we entered 2025 well-positioned to drive earnings growth and shareholder value. Net client cash outflows of \$8 billion in the quarter continue to reflect ongoing strength and alternatives offset by industry headwinds and equities. Despite the challenges in equities, our long-term organic growth profile has improved meaningfully over the last five years. And given our ongoing strategy to evolve our business mix more toward alternatives, we expect further improvement in flow trends over time. Our private markets Affiliates raised \$6 billion in the quarter, bringing full-year fundraising to \$24 billion, representing annualized organic growth of approximately 20%. These inflows were driven by a broad base of Affiliates, including Comvest, EIG, Forbion, Pantheon, and Peppertree.

The fundraising strength of AMG's private markets Affiliates reflects investors' conviction in their specialist investment strategies and the positive fundamentals of their sectors.

Our private markets Affiliates are at the forefront of secular growth trends and continue to generate outstanding investment performance across a number of high growth areas, including infrastructure, credit, private market solutions, and specialty areas including industrial decarbonization, life sciences, multi-family real estate, and now industrial logistics through our partnership with NorthBridge.

In liquid alternatives, our Affiliates' value proposition is gaining momentum with clients, and resulted in a second consecutive quarter of positive flows with \$2 billion of net inflows driven primarily by AQR, Winton, Systematica, and Garda.

Our Affiliates managing liquid alternative strategies have excellent long-term track records across both beta-sensitive and absolute return strategies, including global macro, relative value fixed income, tax-aware strategies, and trend-following. Many of our liquid alternative strategies are designed to protect against volatility and drawdowns, complementing our private markets and differentiated long-only strategies.

As clients continue to focus on portfolio construction amid rising market volatility expectations, we see increasing opportunities for organic growth in liquid alternatives and continue to focus on growing AMG's exposures in this area.

In equities, we saw net outflows of approximately \$16 billion in the quarter, reflecting industry and near-term performance headwinds, as well as some modest seasonality.

We continue to collaborate with our Affiliates on developing new vehicles, including active ETFs, to optimize the delivery of their strategies and enhance their alignment with evolving client demand trends.

Multi-asset and fixed income were once again a positive contributor to net flows, with modest inflows in the quarter and approximately \$3 billion of inflows for the full year. Our Affiliates managing multi-asset and fixed income strategies have consistently benefited from client demand trends, having generated net inflows in 13 of the last 15 years.

As we have discussed over the past several quarters, we have significantly invested in our Capital Formation capabilities, specifically to develop and distribute alternative products in the high-growth U.S. wealth markets. And those investments are paying off.

Over the past five years, alternatives AUM on our U.S. wealth platform has grown more than 10-fold, ending the year at more than \$6 billion in AUM. In 2024, we posted \$2.5 billion in alternative net inflows to our U.S. wealth platform.

In addition, we launched three new evergreen products and filed for two additional strategies that we anticipate will go live later this year. These include Credit Secondaries and Infrastructure offerings with Pantheon, a non-traded BDC with Combust and two trend-following strategies with Systematica.

In combination with the AMG Pantheon Fund, which recently crossed \$4.5 billion in AUM, we will now have six alternative continuously offered solutions designed specifically for AMG's U.S. wealth platform, offering clients direct access to excellent investment capabilities from specialized independent firms. 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 U.S. wealth.

Along with the growth that we are generating on the centralized AMG wealth platform, our Affiliates, especially Pantheon and AQR, continue to take advantage of tailwinds in wealth through their own product development and distribution capabilities, and as a result, AMG and our Affiliates are collectively one of the largest sponsors of alternative products for wealth markets globally, with more than \$30 billion in total AUM.

And the success that we are having in the wealth channel is resonating not only with clients and existing AMG Affiliates, but also with New Investment Prospects, as accessing this attractive market requires scale and is difficult, if not impossible, for independent firms to do on their own, given the resources required to be effective in the channel.

With our proven strategic capabilities to enhance our Affiliates' long-term success. The ongoing fundraising strength of our private markets Affiliates, and improving trends in liquid alternatives, we have entered 2025 in a position of strength.

With that, I'll turn the call over to Dava to discuss our fourth quarter results and guidance.

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

Thank you, Tom, and good morning, everyone. In 2024, we continued to strategically evolve our business to expand our exposure to secular growth areas, especially alternatives, and these efforts have contributed to our earnings results. We generated a record proportion of adjusted EBITDA and fee-related earnings from alternative strategies, and together with the disciplined ongoing execution of our capital allocation strategy, this contributed to our record economic earnings per share in 2024. With our strong balance sheet and business momentum, we are well positioned to generate further growth in 2025. In the fourth quarter, adjusted EBITDA of \$282 million, down 5% year over year, included \$70 million in net performance fee earnings. On a full year basis, we reported adjusted EBITDA of \$973 million, up 4% versus 2023, which included \$126 million in net performance fee earnings.

These results primarily reflect higher fee-related earnings, which grew approximately 10% for both the quarter and the full year, driven by growth in average AUM and the impact of recent new investments. This was offset by lower net performance fees compared to the fourth quarter and full year 2023. Economic earnings per share of \$6.53 for the fourth quarter, and \$21.36 for the full year 2024, further benefited from the impact of a record year of share repurchases. On a full year basis, economic earnings per share grew 10%, demonstrating how our capital allocation strategy can create value for shareholders.

Now moving to first quarter guidance. A reconciliation slide has been posted to the investor relations section of our website where you can find detailed modeling items for the first quarter.

We expect adjusted EBITDA to be in the range of \$220 million and \$230 million. This is based on current AUM levels reflecting our market blend, which was up 2% quarter to date as of February 4, includes net performance fees of \$10 million to \$20 million, and includes no earnings contribution from the investment we announced in NorthBridge, which will start in Q2 and will be modestly positive earnings contributor in 2025 with strong future upside potential.

Turning to performance fee earnings, looking at the bigger picture, the mix of strategies deployed by our Affiliates that generate performance fees is diverse across both liquid alternatives and private markets.

And historically, during times of volatility and stress, we have seen strong performance from our absolute return strategies, many of which are designed to protect against market volatility and downturns. We continue to believe \$150 million is a reasonable expectation for our annual performance fees, and consistent with our prior 5-year performance fee earnings average.

In the first quarter, where our results are primarily driven by Affiliates who report to us on a one-quarter lag, we expect performance fee earnings to be \$20 million to \$30 million below the year-ago period. And while we are starting the year lower than where we have been in the past, we remain confident that performance fees will continue to contribute meaningfully to our earnings over the long-term, including a growing contribution from private markets carried interest in the future.

We expect first quarter economic earnings per share to be between \$5.02 and \$5.26, assuming an adjusted weighted average share count of 30.7 million shares for the quarter.

Finally, turning to the balance sheet and capital allocation. We focused on strengthening our balance sheet and enhancing our capital flexibility in 2024, with strong results. We issued \$850 million of long-duration debt, paid down \$750 million of short-term senior debt, and extended our undrawn \$1.25 billion revolver for five years.

With these actions, the weighted average duration of our debt is now more than 20 years, and we continue to be in a strong liquidity position with \$625 million in cash and \$475 million in investments across GP commitments, seed capital, and other strategic investments. Our current leverage position remains below historical averages, and our cash plus balance sheet investments equal our existing debt maturity through 2034. This provides us with a lot of capital flexibility as we look out over the next few years.

In terms of capital allocation, in the fourth quarter, we repurchased \$120 million in shares, bringing us to approximately \$700 million for the year, or 13% of our shares outstanding.

On a full-year basis, given a combination of factors including our strong liquidity position, strength of the balance sheet, current leverage levels, and our view of the value of our business, we were compelled to take a more opportunistic view on the quantum of repurchases in 2024.

We will continue to apply our disciplined capital allocation framework, which is embedded across all elements of our investment process and culture, to make long-term value-maximizing decisions on behalf of our shareholders.

And as Jay mentioned, we have real momentum on the new investment side with several opportunities in late stages, so we anticipate that we will deploy a balance of capital between both new investments and share repurchases. Based on this, we expect to repurchase at least \$400 million in shares in 2025, subject to market conditions and new investment activity.

We are confident in our ability to execute our disciplined capital allocation strategy and generate meaningful shareholder value over time.

Now, we are happy to take your questions.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions)

Dan Fannon, Jefferies.

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### Trevor Dodds - Jefferies LLC - Analyst

Hi, this is Trevor Dodds on for Dan. Can you discuss in more detail the pipeline for new investments and how that compares to this time a year ago? Also, did the change in administration have any impact on conversations or dialogue with prospective Affiliates?

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

Okay, thanks, Trevor, for your question this morning and good morning to you. So maybe I'll take that one. So as I said in my prepared remarks, our pipeline has and continues to be strong. NorthBridge was just one of those prospects in our pipeline, and we had announced that this morning.

When we look across our pipeline, we still have several in the later stages, in terms of development. Maybe I'll take a second and talk about NorthBridge, and then relate it to the broader environment for M&A for us and then I'll address your question on the change in administration. So taking it from the top maybe on NorthBridge.

So NorthBridge, very high-quality independent firm operating in an area of secular growth, which is our strategy to invest in businesses and areas of secular growth. It is a private markets manager and it specializes in industrial logistics and importantly, it's picking up on key trends like the e-commerce environment, accelerating consumer demand for shorter delivery times and the onshoring of supply chains. So we think this opportunity has a real upside for us.

We're excited about adding a new private markets manager and excited about adding a real estate manager since those are diversifying for us, and that really does give you some sense for a broader pipeline which is predominantly in areas of alternatives, and specifically in private markets and liquid alternatives. Sort of our attractiveness in the market, I think has never been better, mainly because we are unique in that we offer both strategic resources to independent firms, but we also preserve their independence over time, so they really get the best of both worlds.

And when you think about why NorthBridge chose AMG, they really did choose us, because we have a history of magnifying our Affiliates' success through engagement, through strategic engagement, and they were looking for growth capital for their funds and the growth of their funds. They were also looking for some seed capital which we are going to provide, and they were attracted to our strategic business development help as well as product development and distribution capabilities. All of those things factored into why they chose us.

When we look more broadly at our pipeline, we see that dynamic playing out, and we think that we compete very well in this environment. Independent firms looking for the benefits of a strategic partner but also leaving them alone in terms of the operations of the day to day and their investment strategies.

So it's a very attractive environment for us to participate. To your question on the administration, look, I think the administration change probably does favor more new investments for us. Anytime there's the potential for lower regulation and, more business development, it generally is pro-investment, pro-risk on, and so we do think that it has the opportunity to be attractive to us in this environment to accelerate our new investment pipeline.

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**Operator**

Bill Katz, TD Cowen.

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**Bill Katz** - TD Cowen - Analyst

Okay, thank you very much for taking the question. Congrats on the small transaction today. As you think about the pipeline from here, Jay is the is the go forward, the NorthBridge kind of model where you have a minority stake in a smaller franchise that you can then sort of lever through your more advanced global distribution platform, or could there be some larger deals that might move the flow and/or strategic needle a little bit more quickly at the end of the day.

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

Yeah, I mean, the short answer is both actually, Bill, to put it direct, I think we have a number of sort of mid-sized firms that we think can triple, or do even more than a triple, and frankly using our resources to help them get there. As Tom said in his prepared remarks, we're actually a pretty significant player in bringing private markets products and liquid alternative products to the wealth channels.

So I think we look at our pipeline and say there's a number of firms that are choosing us and we are choosing them because we can accelerate their growth. But we also have some larger new investments in our pipeline, where we might be able to put even more capital, and they just happen to be larger franchises, but the growth dynamics there are attractive as well. We do have the reputation in the market of being a very supportive

partner, whatever the needs of the firm really is. So in some cases we are much more active with our Affiliates. In other cases, we're still strategically engaged, but we have more of a business development, longer term perspective, and they engage with us as needed.

So when we look at the pipeline, we have a mix of all of the above, both relatively small and much larger transactions. All in the category of, and I've said before, sort of enterprise value between, \$250 to \$750, of which we would typically buy either a minority or a bare majority stake in all cases, leaving the business alone.

So that's kind of our opportunity set. Now there are times where we might actually go beyond that, and you've seen us do that in prior years and that's not off the table for us. We actually think that there's some attractive opportunities out there for us, but we would obviously make sure that the bar was high when we make those investments.

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**Operator**

Alexander Blostein, Goldman Sachs.

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**Luke Bianculli** - *Goldman Sachs - Analyst*

Hey, good morning, everyone. This is Luke on for Alex. Thanks for taking the question. So the last few quarters you've provided really helpful detail into your retail alts product pipeline. I was hoping you could give us an update on the trends you are seeing evolve from both a client demand perspective and distribution fee arrangements and how active are you guys currently in developing active ETFs for your Affiliates. Thank you.

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

Yeah, thanks, Luke for your question. I think Tom, you're well positioned to take that one.

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

Yeah, thanks, Jay, and thanks, Luke. So as I talked about in my prepared remarks and really as we've been talking about now over the course of the last couple of years, AMG has pivoted pretty hard with respect to our strategy to really support our Affiliates and to attract the next new investment prospect through our capabilities in the U.S. wealth channel, and more broadly as we think about product development, the ability to use our balance sheet to see the exciting new product opportunities.

And when you kind of take a full step back, the most unique and interesting thing that we have at AMG are the investment capabilities that exist across our Affiliates around the world in long-only asset classes, in liquid alternative asset classes, and in private market asset classes. In 2024, we aggressively ramped our pace of getting new products to market.

It's been quite some time since we've launched a new product into the U.S. wealth space, and last year we successfully launched three. And filed for two more. So we now have six continuously offered products that are available. We also had a drawdown, so sort of a traditional more closed in private equity style fund in the market in the US wealth channel last year. So we really feel like we're off to the races with respect to alternatives in U.S. wealth.

In terms of the forward product development pipeline, we really view our opportunity set in the space as being a conduit to deliver excellent independent partner-owned alternative product across the spectrum of liquid alternatives and private markets to the U.S. wealth space through this sort of single channel that is AMG. And it allows us to bring really differentiated independent partner-owned firm products, but with sophisticated product development and salesforce efforts that can really comprehensively cover the channel, and we don't think there's anyone else in the industry who brings together that combination of unique investment expertise and the ability to educate advisers, work with home offices, and really get those products into the market.

With respect to the long-only side, we do see active ETFs as a really interesting and exciting opportunity. There's been a tremendous amount of innovation that's taken place there over the course of, not only the last decade, but really some acceleration over the course of the last couple of years, particularly with respect to adoption of actively managed ETFs.

We had a couple that were launched this past year by some of our Affiliates. We are spending a lot of time with a group of Affiliates thinking about the right way to enter those markets, and we see it as a really exciting opportunity again to combine excellent investment expertise with where client demand is going in the market with respect to the ability to generate returns, but also putting those returns in an appropriate wrapper that clients can consume.

So it's a great question, Luke, and it's really a big part of our strategy, and we think it's a big growth driver for us in the future.

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### Operator

Thank you. Ladies and gentlemen, this brings us to the end of the question-and-answer session. We would like to thank you for your participation and interest in AMG. You may now disconnect your lines or log off the webcast and enjoy the rest of your day.

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