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# EDITED TRANSCRIPT

AMG.N - Q3 2021 Affiliated Managers Group Inc Earnings Call

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**OVERVIEW:**

Co. reported 3Q21 economic EPS of $4.





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**Brian Bertram Bedell** *Deutsche Bank AG, Research Division - Director in Equity Research*

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## PRESENTATION

**Operator**

Greetings, and welcome to the AMG Third Quarter 2021 Earnings Call. (Operator Instructions), this conference is being recorded. I would now like to turn the conference over to your host, Anjali Aggarwal, Head of Investor Relations for AMG. Thank you. You may begin.

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**Anjali Aggarwal** - *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 2021. Before we begin, I'd like to remind you that during this call, we may make a number of forward-looking statements, which could differ from our actual results materially, and AMG assumes no obligation to update these statements.

A replay of today's call will be available on the Investor Relations section of our website, along with a copy of our earnings release and a reconciliation of any non-GAAP financial measures, including any earnings guidance announced on the call. In addition, we posted an updated investor presentation to our website this morning and encourage investors to consult at that regularly for updated information.

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

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

Thanks, Anjali, and good morning, everyone. Growth continues to be a theme at AMG in 2021, and we are pleased with our excellent results. Our strong third quarter again reflects the consistent execution of our strategy, which includes partnering with new Affiliates operating in attractive growth areas and supporting the continued growth of our existing Affiliates.

Against the backdrop of improving flows, AMG generated year-over-year growth of 26% in EBITDA and Economic earnings per share of $4.00, representing the strongest third quarter in our history. Our Affiliates' excellent year-to-date investment performance has resulted in higher asset levels and improving organic growth profile and an increasing opportunity for performance fee generation.

We believe today's environment requires an active approach, and we are seeing clients increase allocations to the highest-quality active managers as they position their portfolios to address the prospect of rising inflation, shifts in government behavior and the desire to achieve impact through sustainable investing.

These behavioral changes have contributed to AMG's improving profile and strong financial results this year. Further, our strategy is focused on investing in areas of secular growth where client demand is high, including in private markets, specialty fixed income, wealth management, Asia and ESG.

As we execute on this strategy, not only are we growing earnings, we are simultaneously evolving our business composition toward in-demand strategies. And over time, this ongoing shift will have an increasing impact on our long-term growth prospects.

Executing across all elements of our strategy has had and will have a significant impact on reshaping our business towards fast-growing segments of the industry. This year alone, we have partnered with four new Affiliates, including two in private markets and two dedicated to sustainable investing.

And we expect that these four affiliates will collectively contribute approximately $100 million in EBITDA in 2022. Since 2019, this management team has added eight new Affiliates, operating in areas of strong secular demand, and we completed strategic repositioning work both at AMG and alongside our Affiliates further changing our composition and freeing up capital and resources to redeploy into our growth strategy.

The collective impact of these actions is manifesting in our flows and our overall growth profile.

Turning to new investments. AMG has been one of the most active investors in independent asset managers over the past 24 months. Our partnership approach is resonating with the highest-quality partner-owned investment firms. And looking ahead, we are confident in our ability to execute on our new investment opportunity set given the favorable transaction environment, AMG's strong competitive position and increasing demand for our unique partnership solutions.

During the quarter, we were pleased to partner with our newest Affiliate, Abacus Capital Group and welcome Ben Friedman, Kyle Ellis and their partners and look forward to working with them on their strategic objectives. With strong structural demand for multifamily real estate, Abacus is a fast-growing, high-quality business with excellent forward prospects in an attractive segment of the real estate industry.

Ben and his team were seeking a permanent strategic partner and were attracted to AMG's partnership approach, which preserves our operational autonomy and entrepreneurial culture and enables them to continue to build an enduring, multigenerational independent real estate business.

Notably, we are now seeing opportunities to invest in illiquid managers seeking partnership solutions oriented towards incentive alignment and succession planning. Many founder-led and private markets businesses are reaching a stage in their life cycle where demographically-driven leadership transactions may take place. And AMG's proven approach is uniquely attractive.

Succession planning has been and continues to be, a core component of AMG's partnership approach and together with our ability to offer growth capital and strategic capabilities, our solutions will continue to differentiate AMG as a leading institutional partner to independent firms. In addition to evolving our business through investing in new Affiliates, we are also collaborating with existing Affiliates on distribution and product development within many of the same secular growth opportunities.

For example, in Distribution in the second quarter, we completed the evolution of our U.S. wealth platform, AMG Funds, with an overall focus on repositioning the product offering towards areas of growing demand. As a result of this strategic evolution, we now offer an enhanced product lineup, including ESG equities, specialty fixed income and Asian equities not previously available in the U.S. market.

And we are adding resources and capital to our distribution efforts in support of this evolving product mix and the forward opportunity. We continue to expand our suite of in-demand strategies, especially in alternatives, including both liquid and illiquid alternatives, which will further differentiate AMG and our Affiliates going forward.

Recently, on the product development side, we supported Pantheon PFM and Artemis in developing, seeding and launching additional private markets and ESG strategies, again, consistent with our overall focus in these secular growth areas. Pantheon has recently filed for a listed infrastructure vehicle, which will further expand their investor base as they continue to build on their position as a leading provider of private market solutions.

PFM has introduced a growth equity fund dedicated to health care innovation, leveraging their strong long-term track record of late-stage private markets investing within their flagship fund. Additionally, Artemis launched its Positive Future Fund following the recent lift-out of its global sustainable equities team.

These are all great examples of how AMG's central strategic capabilities and seed capital can meaningfully support our Affiliates in areas of increasing client demand. A consistent theme across all of our client conversations today is the desire for, and increasing focus on sustainable and active stewardship. As I have said before, sustainable investing requires an active approach, and our Affiliates are benefiting as clients increasingly engage high-quality active managers to generate positive impact in communities worldwide.

Simultaneously, investors are also managing through an environment that has become increasingly complex and difficult to forecast, and we believe that active managers, especially independent firms, are best positioned to deliver client outcomes not replicable through passive investing.

AMG Affiliates are among the highest quality independent active managers in the world, and given their excellent performance across a number of highly differentiated in-demand strategies, AMG is well positioned to benefit from the evolving environment.

Finally, the strength and momentum in our business that I've been describing over the past several quarters continues to build. Looking forward, we see significant opportunity for continued growth as we execute our strategy and increase our exposure to secular growth areas. We will do this by continuing to invest in new and existing Affiliates as well as leveraging AMG's strategic capabilities.

Through the consistent execution of this [growth] (added by company after the call) strategy, together with share repurchases, we will further compound our earnings and create significant shareholder value over time. And with that, I'll turn it over to Tom to review the details of the quarter.

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

Thank you, Jay, and good morning, everyone. Our strong third quarter results demonstrate the unique attributes of AMG's model as we continue to invest for growth. Strong Affiliate investment performance, organic growth, Affiliate investments and share repurchases combined to produce our third consecutive quarter of year-over-year earnings growth in excess of 20%. And AMG delivered net inflows as we continue to evolve our business mix towards secular growth areas.

For the quarter, adjusted EBITDA of $228 million grew 26% year-over-year and Economic earnings per share totaled $4.00.

Net client cash inflows were $3.3 billion for the quarter and $6.8 billion, excluding certain quantitative strategies. These results do not include net inflows from Parnassus which closed in early October. Overall, net inflows were driven by strong contributions from fast-growing areas, including private markets, specialty-fixed income, wealth management and ESG.

Turning to business performance by asset class and excluding certain quantitative strategies. In Alternatives, we continue to see very strong fundraising levels across our private market managers, including Baring Asia, Pantheon and Comvest, with net inflows totaling $7.5 billion. Client allocations to illiquid alternative strategies are increasing, and we continue to be focused on enhancing our exposure through investing in existing Affiliates and new partnerships, including our recently announced partnership with Abacus, which we expect to close in the fourth quarter. Performance in this category remains [very] (added by company after the call) strong and the management and performance fee potential across our private markets Affiliates represents a significant source of upside for the long-term earnings profile of our business. Turning to liquid alternatives. Net inflows were $1.4 billion, representing a continuation of the strong client demand trends we have seen against the backdrop of heightened market volatility. This category continues to be a source of growth and significant performance fees given the outstanding investment performance across firms like ValueAct, Systematica, Capula and Garda.

Moving to global equities. We experienced net outflows of $1.2 billion, an improvement versus the second quarter. Sales activity continues to be strong and 2/3 of our strategies are outperforming their benchmarks on a 3- and 5-year basis. We remain confident that market volatility and heightened asset dispersion present a favorable opportunity for the highest quality active managers, including our Affiliates, to deliver a differentiated value proposition to clients.

Within U.S. equities, we reported net outflows of $1.3 billion. Performance in this category is excellent, with more than 75% of assets outperforming benchmark on a 3-year basis. With the addition of Parnassus tilting our U.S. equity category further toward high client demand areas like ESG, we are well positioned for growth going forward. And finally, in multi-asset and fixed income, we generated inflows of $400 million as we continue to see steady growth in wealth management.

Turning to financials. For the third quarter, adjusted EBITDA of $228 million, which includes $12 million of performance fees and net gains on strategic investments, grew 26% year-over-year and Economic earnings per share totaled $4.00. These results were driven by strong Affiliate performance in markets and additional earnings power from our recent new Affiliate investments.

Now moving to specific modeling items for the fourth quarter. We expect Adjusted EBITDA to be in the range of $290 million to $340 million based on current AUM levels, which reflects our market blend up approximately 3% through Friday. This guidance includes a seasonally higher performance fee range of $60 million to $100 million and the full impact of Parnassus in the fourth quarter.

Taken in total, 2021 performance fees are expected to be very strong versus recent history, given excellent Affiliate investment performance particularly within liquid alternative strategies. Our share of interest expense was $29 million for the third quarter, and we expect interest expense to remain at a similar level in the fourth quarter.

Controlling interest depreciation was $2 million in the third quarter, and we expect the fourth quarter to be at a similar level. Our share of reported amortization and impairments was $36 million for the third quarter, and we expect it to be approximately $43 million in the fourth quarter, reflecting recent new investment activity.

Our effective GAAP and cash tax rates were 25% and 18%, respectively, for the third quarter. And we expect GAAP and cash tax rates to remain approximately at these levels. Intangible related deferred taxes were $12 million this quarter and are expected to be $12 million in the fourth quarter.

Other economic items were [$(7.5) million] (corrected by company after the call) for the third quarter. In the fourth quarter, for modeling purposes, we expect other economic items, excluding any mark-to-market impact on GP and seed, to be $1 million. Our adjusted weighted average share count for the third quarter was $42.2 million, and we expect our share count to be approximately $41.7 million for the fourth quarter.

Finally, turning to the balance sheet and capital allocation. Our balance sheet and cash generation remain a significant source of strength as we execute on our growth strategy and return capital to shareholders. Over the past few years, we've enhanced our balance sheet by extending duration, improving flexibility and building capacity to support growth.

This was most recently evidenced by issuing a $200 million 40-year junior hybrid bond and completing a 5-year extension of our $1.25 billion Credit Facility and our $350 million Term Loan. On capital allocation, we will continue to be disciplined in our approach as we look to execute on our significant opportunity set to invest to support our growth strategy.

We also remain committed to returning excess cash to shareholders through share repurchases. And in the third quarter, we repurchased $100 million of shares, bringing our year-to-date total to $390 million. In the fourth quarter, we expect to repurchase approximately $100 million of shares subject to market conditions and new investments. This quarter's results reinforce our business momentum and the differentiated ways we can compound earnings growth through strong investment performance, organic growth, deployment of capital to Affiliate investments and ongoing share repurchases.

Looking forward, our earnings power and free cash flow continued to trend higher. And as our strategy drives an increasing portion of our business toward areas of secular growth, we are well positioned to generate sustainable shareholder value over time. Now we're happy to take your questions.

## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions) Our first question comes from the line of Bill Katz with Citi.

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

Okay. Jay, maybe one for you perhaps. You've been certainly early in identifying the opportunity to alternatives. And you've also been sort of repositioning your retail footprint. I was wondering if you could maybe talk about how you're blending 2 together to take advantage of what seems to be a pretty big opportunity in sort of the retail democratization for alternatives?

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

Yes. Thanks, Bill. We have been early, in alternatives generally, and in particular, illiquid alternatives. Today, we have six Affiliates dedicated to [private markets investing] (corrected by company after the call). And that accounts for about $110 billion of our AUM. And we were also early in terms of introducing, in particular, Pantheon into the wealth channel with a 40 Act fund, now a 6-year-old fund.

And we also have done some collective investment trusts and other marketing within the wealth channel. We do think this is a big opportunity, a big opportunity for us and for extending our Affiliates reach into the wealth channel. We're really just beginning here. I think you're aware that we have a partnership with iCapital and an investment in iCapital as well. And we look to drive more value through that relationship as well as through AMG funds, where we're continuing to build our resources, our seed capital and product development towards introducing additional Affiliates into that channel.

So today, I think we raised a little over $1 billion for Pantheon there, and we look to build on the momentum that we've created.

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**Operator**

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

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

Just wanted to expand upon -- I mean, a little bit on that, but just the alternative demand, the fundraising. It's been something that's not new. It's been happening for several quarters, but clearly some acceleration in this quarter. Any large or onetime -- or I shouldn't say onetime -- I mean, closings that happened in the quarter? Or should we think about just kind of the ongoing cycle of either private and/or liquid fundraising to be building from these type of levels?

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

Let me let Tom take that. And maybe, Tom, if you could just not only talk about illiquids, but maybe broaden it first to flows and then we can narrow it to illiquids.

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

Sure. Thanks, Dan. Thanks for your question. Jay and I both spent a lot of time in our prepared remarks on how our overall growth strategy is driving an evolution of our business mix more towards secular growth areas over time. And as we continue to execute against that strategy, we fully expect to enhance the long-term organic growth and earnings growth profile of the business.

And I think you saw that manifest itself this quarter. Importantly, we don't think about flows quarter-to-quarter. We're really focused on long-term sustainable growth. And the choices that we're making today with our resources and our capital are being made with that long-term growth and value proposition in mind.

I will say, I think we are better positioned today for growth than at any time in the last several years, and I'll give you 3 primary reasons why we believe that to be the case. First, some of the headwinds that we faced over the last couple of years in areas like quant and even value equities are significantly smaller today on both an absolute and relative basis than they were, most notably in terms of their impact on our earnings. And we have some real asymmetry in terms of upside in many of those businesses.

Second, we made a number of proactive decisions to realign our resources and reposition certain Affiliates in favor of growth, which has further enhanced our business mix and simultaneously unlocked capital to invest in growth areas. And third and most significantly, we've been aggressively investing in growth, both through new investments and investments in existing Affiliates. That combination means that our mix, our growth profile, and the overall quality of our business today has pivoted meaningfully to the positive versus where we were a few years ago.

That said, we're still in the early innings of executing against our plan, and we continue to evolve our business more towards secular growth areas like private markets, ESG, Asia, and wealth management, partially due to the fact that these businesses are growing faster organically than the industry overall and then partially because that's where we're investing our time and capital. So what you're seeing is very intentional.

And then in terms of the impact on flows this quarter and, Dan, to your specific question. We had more than $7 billion in private markets inflows. And over the last 3 years, we've seen double-digit organic growth in private markets each year and we expect that to continue, aided by momentum at existing Affiliates like Pantheon, Baring Asia, EIG and Comvest and at new Affiliates, including OCP Asia and Abacus.

Each of these businesses are diversified in their own right. They have multiple products targeted to meet the needs of multiple clients and geographies. And given those dynamics, we're really constantly in fundraising mode and that's where you're seeing the growth come from. So the third quarter was a particularly strong quarter, but it was really a continuation of the momentum that we've seen in the industry and our Affiliates, and we expect to continue to build on that going forward.

We also saw strong flows in liquid alts, where performance is excellent and is driving very strong performance fees as we included in our guidance, including at Systematica, Garda, Capula and ValueAct. And across active equities with the addition of Parnassus, our growing ESG presence and with strong near- and long-term performance track records, we're really well positioned for the long term.

And I'll make one last point, which is, I also think it's really important to think about the quality of the flows that we're seeing. As we continue to grow our private markets business and our liquid alternatives exposure, in particular, the value of every dollar of inflows we see is also increasing.

These assets tend to be long duration, locked-up funds where we experienced management fees for an extended period of time and that duration is very valuable to us. And additionally, as our business continues to generate substantial and consistent performance fees, we're also growing that bucket of AUM that can produce those performance fees into the future.

So overall, we are very confident in our overall strategic path, pushing our business mix more and more towards growth, including in private markets. We're pleased to see the positive flows this quarter, and we think we're on a good track to continue pushing the business more towards growth areas over time.

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

So that was great, Tom. Let me make one more general point and then one more specific point to Tom's comments. The first, the general, I think it's a really important point that Tom just made. Our flows really are an output of successfully executing on our strategy as we continue to reshape our business mix towards these areas of secular growth, we see that profile continuing and improving.

We're in the best position from a growth perspective that we've been really in 3 or 4 years now. The specific point I wanted to make was on Parnassus. As you saw in our announcement, Parnassus closed on October 1. So the results are not in these numbers. The financial results nor the flows, and they had about $2 billion of flows in the third quarter.

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**Operator**

Our next question comes from the line of Alex Blostein with Goldman Sachs.

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

Just staying on the private market alternatives question for a minute. Could you flush out AMG's value proposition here to new Affiliates? The reason why I ask is clearly there's been more activity in the space. We've seen T. Rowe make an acquisition. We see Franklin announced an acquisition this morning. So just curious how you think about your ability to partner with firms and sort of the differentiated angle you can bring versus somebody who's willing to acquire 100% of the business?

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

Yes. Thanks, Alex. As you know, we are a permanent partner to independent firms. And obviously, those firms have a desire to stay independent and aligned with their clients. We actually think that's the best form for firms to exist in active management.

We support that fully, and that is our business. And so when you think about the strategic support and solutions [we provide] (added by company after the call) for independent firms, it's really about accelerating their own growth plans and their own growth initiatives. So everything we do at AMG is to try to incrementally help them along their business plan and on their strategic objectives.

We provide access to and support for distribution and other resources. And when you think about that, and take a look at Pantheon now, who has raised over $1 billion in the wealth channel, specifically, and continuing to grow pretty dramatically in that channel, it was AMG Funds who supported them in that effort. It was AMG who seeded the fund to begin with. So whether it's seed capital, the package itself, the administrative aspects of it, or it's the selling, we are involved very heavily in helping our Affiliates improve on their strategic plan.

In fact, as I mentioned in my prepared remarks, this quarter, we supported the infrastructure listing vehicle for Pantheon, and that's expanding their reach from a client perspective. So we're continuing to help with seed capital and with additional resources. I had mentioned also in my prepared remarks that we're supporting the launch of a [private growth equity fund] (corrected by company after the call) at PFM in the biotech space.

And more broadly, we see opportunities as we've now partnered with a number of new private [markets firms including] (corrected by company after the call) Comvest and OCP Asia, in particular, where we see opportunities for them in the wealth channel. We also see opportunities for them on the institutional side as well. And I should mention in the most recent cycle for Baring, we've raised nearly $1 billion for Baring on private equity in the institutional channel, and that's where we have large client relationships around the world, and we're extending the reach and penetration of our Affiliates' marketing efforts.

So when you think about AMG, we're obviously in the business of helping our Affiliates. And now that we very much are leaning into the opportunity for these secular growth trends, we see more capital and resources going to these efforts. We expect more growth to come in these illiquid markets and each period that goes by, we're evidencing that more.

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**Operator**

Our next question comes from the line of Brian Bedell with Deutsche Bank.





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**Brian Bertram Bedell** - *Deutsche Bank AG, Research Division - Director in Equity Research*

Great. Let's stay on the topic du jour. Maybe another way to ask on the alternative side from a new investment perspective. And what's your thought on -- obviously, you're a good partner for these firms, but your thought on your ability to engage in larger transactions than you have historically, I guess, maybe if you can just review the capacity to do that.

And if there are other larger opportunities than the ones you've recently done in illiquids. And maybe if you can talk about some of the areas that might be more interesting. I know private credit, obviously, has become a more interesting area in general for traditionals to get into? Maybe if you could just review your overall private credit composition right now and whether that's something that's appealing to you?

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

Yes. Thanks, Brian. I'm going to have Tom help me with a couple of questions in there, and in particular, on the capacity point. But Tom, if I've missed anything, you can come in over the top here. So let me first address the size question because, to me, there's a bit of a contradictory concept here. Size is less relevant than the amount of shareholder value that's created, right? Because you don't want us to buy something that's big and then get smaller, you want us to buy something that is smaller and gets bigger.

And so for us, and I think that's what's exciting about partnering with independent firms who want to remain independent especially when you imagine that the value of what they leave inside of the company that we do not purchase is likely to be and has historically been more valuable than the piece that we do, and that means that the growth is still ahead of them.

I think the other thing that's really worth noting is the idea that we are not buying 100%. And I don't think there's as many options out there today for independent firms because the whole landscape is skewed towards consolidation. I will note, a little humorously, that if you want to spend more money, you can buy 100%, but then you might find that you've changed the nature of that business by buying 100%. We don't think that size or that ownership stake is a good cultural fit for AMG.

Frankly, we don't think consolidation transactions are good for clients and are really not good for long-term success. So our opportunity set are those independent firms that are still growing that want to be independent that want a supportive partner to help accelerate their growth, as I had just mentioned in the last set of comments.

We're surprised candidly that we're seeing fewer competitors. There's really a lack of competitors for independent firms that want to remain independent. That is giving us an ability to create more relationships in this environment. So we're very favorable on the environment for us in terms of new partnerships. I think we are in a period of elevated deal activity. We've done 8 transactions over the last 2.5 years, and four in this year alone.

We've put out more money into growth-oriented investments this year than we have since 2016. I don't think we're having a hard time finding good businesses to partner with. And I don't think we're having a hard time finding enough businesses to put our capital in. So I come back to the main point, which is what you hope that we are doing, and that is finding firms in their growth cycle, partnering with them and then generating very strong shareholder value post transaction.

And I think that's something that we have done with these 8 transactions, these 8 partnerships, and we will continue to do, and we're very bullish on that. So the other thing that's important is, stepping back, new investments have a significant impact on our business. It changes the shape and the mix of our business. We continue to add illiquid managers, ESG managers, wealth managers, specialty fixed income and Asia-based businesses. We think they're all growing at significant rates and the firms that we have added during this period are all growing at double-digit organic growth rates.

While at the same time, our business shape and mix has changed at our existing business, and that also is picking up growth. And so we're very excited about each day that goes by, each quarter that goes by because we think our momentum is just beginning to build. Tom, I'll turn it to you because I know I missed some elements there.

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

Sure. Thanks Jay. I'll make a couple of comments, Brian, one around your private credit question and then one around balance sheet capacity. First, private credit is absolutely a trend that we're participating in today across the 6 private markets affiliates that we've referenced, each of Pantheon, Baring Asia, and EIG have components of their business in the credit space and OCP and Comvest have significant components of their business in that space.

Also, while a bit of a different flavor, both Garda and Capula in the relative value fixed income space, I think, provide really unique alpha streams in terms of client interest in the fixed income and credit space overall. So we're very active overall in that space today. It's been a big growth driver for us and I think we expect it to continue to be. And in terms of new investments, private credit remains an interesting area for us, but I think we're taking a very intentional approach. We're really looking for those parts of the market where a manager can be differentiated versus those parts of the market that have become more commoditized.

So we think it's a big growth area, but I think it's also one that you have to play very intentionally in. In terms of capacity, look, we're in great shape. We have a lot of momentum in our business that translates into a growing free cash flow stream. And when you combine that with our flexible balance sheet, we're in a good place to be able to allocate capital thoughtfully where we see great investment opportunities.

As I mentioned in my prepared remarks, we just redid our revolver, $1.25 billion, extending it out 5 years and we redid our term loan. We issued a hybrid bond a couple of months back, and we're running at a very comfortable leverage level today. So we don't see any issues with respect to capacity and our ability to both, make new investments in the alternatives space, but more broadly beyond that in high-growth areas with great structures, as Jay has talked about, and also to continue to be in the market, returning excess capital through repurchases as well.

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**Operator**

(Operator Instructions) Our next question comes from the line of Robert Lee with KBW.

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**Margo Rybeck**

This is Margo filling in for Rob. So I was hoping you could talk a little bit about the stakes business. And just sort of as that continues to grow, are you viewing that as more competition in terms of M&A or more of an increase in the opportunity set?

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

Yes, maybe taking a step back. We partner with independent firms, and we offer to those independent firms a variety of custom partnership options that include, and what we're most known for, is succession planning. But we're also very much offering growth capital and minority interest type transactions. We've been doing [the latter] (added by company after the call), since 2004. We see our partnership solution as different than what you would consider a traditional stake buyers' because we can really support firms through their growth cycle and through their growth initiatives by not only supporting them but offering capital and the right transaction for them at the right time in their history while also supporting them as they evolve over time.

And if a firm initially starts at a minority level, we obviously can support them through a succession plan as well, and we do succession planning work even with some of those earlier-stage businesses. So I think we've not only been able to capture that opportunity set, but we're frankly still an option for all firms that need to go through succession planning because that is something that I believe we're the best at in the industry.

And so of all of the interests that have been sold, there's still an opportunity for us to continue to be a partner to those firms. But more broadly, on a new prospect, we are offering all of the above plus the support services of our global distribution efforts that I mentioned earlier. The other thing I was going to mention in the context of our business and our progress is I think the benefits of the long-term efforts of being a supportive partner over all these years, now going on 28 years here at AMG, is the wealth and diversity of our business.

We are seeing it play out this year in our bottom line, and in the very guidance that Tom gave you today on the fourth quarter in particular, since Parnassus assets are just coming into our financials in the fourth quarter. We're very bullish on the impact to our EBITDA. And I mentioned from a 2022 perspective that we see $100 million coming from all 4 of the Affiliates that we've [partnered with] (corrected by company after the call) this year.

Maybe I could just ask Tom, while we have a few more minutes here, just to touch on guidance a bit further, and the momentum that we're seeing and how this translates into the bottom line.

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

Sure. I'd be happy to. As you heard in our prepared remarks, we raised our guidance significantly for the fourth quarter and for the full year. Just to put it in perspective, the low end of that updated range at $17.50 is now above the high end of the range that we provided earlier in the year. If you recall, in February, we provided an economic earnings per share range of $15.50 to $17.00, and our current guidance is now closer to $17.50 to $18.50 per share, and we feel really confident in the upper half of that range.

At the midpoint of the range, we'd be at approximately $1.025 billion of EBITDA for the year, which would be up more than 25% versus 2020 and up more than 35% on an economic earnings per share basis. And it's really the execution of our growth strategy that's delivering upside versus that initial guidance range in a number of ways.

First, as Jay just mentioned, we're partnered with a diverse group of the highest quality independent active management firms in the industry, and they're increasingly concentrated in areas of strong secular demand. And those businesses are delivering excellent investment performance today and over the long term.

And as our Affiliates continue to generate that strong performance, performance fees follow. And you're seeing that again this year. Performance fees are an important and, I think, really an underappreciated component of our earnings. We've consistently delivered strong performance fees year after year after year. And the diversity and stability of that cash flow stream is incredibly valuable to us as we execute on our growth and capital allocation strategies.

And over time, as we've talked about on this call, as more of our private markets Affiliates start to generate performance fees, we're well positioned to benefit from an even stronger and more diverse performance fee stream.

Second, when we gave you our original guidance, we didn't include the impact of new investments. And with 4 new investments this year that are adding $100 million to our run rate EBITDA and a heavy focus on secular growth areas, all of those businesses are driving both earnings growth and organic growth and our opportunity set from here is incredibly strong in terms of new investments, as Jay has discussed.

And then finally, you're getting the benefit of capital return. We're on pace to buy back $500 million of shares this year, and we've taken our share count down by more than 20% over the past few years. So taken in total, we are very well positioned to deliver strong earnings growth this year, and we've only partially realized a lot of the impact of the points I just discussed. So we also have significant tailwinds heading into 2022 as well.

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**Operator**

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

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

Just a follow-up and right off of what you just were talking about, Tom. Any way you can provide for us within your AUM, how much of your assets are performance fee eligible or any other ways for us to get a better handle on this underappreciated opportunity.

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

Yes, I can talk about performance fees a bit overall, Bill. The immediate answer to your question is we have more today than a year ago. And every year that we put up really great performance, we're seeing more flows into those strategies. We're also seeing bigger asset pools just as the performance itself is leading to growth.

And then to the points we've made on new investments, a lot of the areas that we're adding to are continuing to grow the overall AUM base that is performance fee eligible. But performance fees for us really fall ultimately into 3 buckets. The concentrated long-only bucket, which has already been a significant contributor for us in 2021, and we expect to see more of that again in the fourth quarter. Absolute return strategies like Garda, Capula, Systematica, and they're also a big part of the fourth quarter story.

And then finally, we've talked a lot about illiquids and the building carried interest bank that we see over time. So it's a big and diverse group, Bill. Over time, it's one that continues to grow and you really get the benefit of, one, the consistency of performance fees year after year after year that you can really capitalize into our long-term earnings growth; two, the mix of the fact that it's coming from market-sensitive absolute return and illiquids; and then three, the fact that, that pool continues to grow pretty substantially over time.

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

Yes. I'll just add that the performance fee opportunity for us this year is really off the back of truly excellent performance. And as we have experienced in the past, that generally leads to flows. So we're very bullish not only on where we are relative to high water marks and the size of the building performance fee opportunity, but also on the potential flows that come with it. And there's been so much attention given to the illiquid alternatives that there's not been enough attention given to the liquid alternatives, which are just having an excellent year, especially at AMG and Tom mentioned a number of them, and that bodes well for next year.

**Operator**

Thank you. Ladies and gentlemen, that concludes our question-and-answer session. I'll turn the floor back to Mr. Horgen for any final comments.

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

Thank you all for joining us this morning. AMG has delivered outstanding results in the first 9 months of 2021, and we see strong momentum as we continue to execute on our strategy. 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. Thank you for your participation, and have a wonderful day.