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AMG.N - Q3 2025 Affiliated Managers Group Inc Earnings Call

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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Greetings, and welcome to the AMG third-quarter 2025 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 Investor Relations*

Good morning, and thank you for joining us today to discuss AMG's results for the third quarter of 2025. 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 reconciliations of any non-GAAP financial measures, including any earnings guidance provided.

In addition, we have 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, Chief Executive Officer; Tom Wojcik, President and Chief Operating Officer; and Dava Ritchea, Chief Financial Officer. With that, I'll turn the call over to Jay.

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

Thanks, Patricia, and good morning, everyone. It has been a landmark year for AMG with record net inflows in alternative strategies and near record levels of capital deployed in growth investments across both new and existing Affiliates. Our third quarter results reflect the building momentum in our business, with a 17% year-over-year increase in EBITDA and a 27% growth rate in economic earnings per share. In addition, our organic growth profile continued to improve in the third quarter, driven by alternative strategies with \$9 billion in firm-wide net inflows, bringing our year-to-date total net inflows to \$17 billion which represents a 3% annualized organic growth rate.

Through the third quarter, across both organic growth and new Affiliate investments, AMG has added approximately \$76 billion in alternative assets under management, representing an increase of nearly 30% in our total alternative AUM. This increase includes \$51 billion in net inflows into alternatives. Today, our Affiliates manage \$353 billion in alternative AUM contributing 55% of our EBITDA on a run-rate basis, including sizable contributions from two of AMG's largest and longest-standing Affiliates, Pantheon and AQR. Both firms continue to capitalize on the tailwinds in their respective areas by leveraging their scale, innovative cultures, and differentiated expertise which are collectively driving strong ongoing organic growth for AMG.

These elements are continuing to have a meaningful impact on our business, profile, and earnings. And as you know, we expect each Affiliate to be a double-digit contributor to AMG's earnings this year. Given the substantial increase in our alternative AUM, the significant growth and margin expansion at AQR and Pantheon, the positive contributions resulting from capital deployed in growth investments, and the positive impact of our ongoing allocation of capital to share repurchases, we anticipate a meaningful increase in our full-year economic earnings per share in 2026.

Looking ahead, we have expanding opportunities to further invest in growth by investing in new and existing Affiliates, and by investing in AMG's strategic capabilities to magnify our Affiliates' success. Our new investment pipeline remains strong, with active ongoing dialogue with prospective Affiliates operating in both private markets and liquid alternatives. Our investment model continues to resonate with the highest quality partner-owned firms seeking a strategic partner that can enhance their long-term success while also supporting their independence. And our strategic capabilities, particularly in capital formation, increasingly differentiate AMG in our dialogue with prospective Affiliate partners.

We recently announced a strategic collaboration which highlights the value of AMG's capital formation capabilities in the U.S. wealth channel. Brown Brothers Harriman, a globally recognized 200-year-old firm with considerable scale, chose to strategically collaborate with AMG to develop innovative products and deliver structured and alternative credit solutions to the wealth channel, a very strong statement on AMG's value proposition.

Also in the third quarter, we announced the sale of AMG's minority stake in Comvest's private credit business. AMG invested in Comvest to provide a combination of growth capital and strategic capabilities that accelerated the growth of its credit franchise. We were pleased that AMG's strategic engagement ultimately resulted in a positive outcome for all stakeholders, including AMG's shareholders. The significant return of capital, nearly 3x our purchase price, highlights the underlying value of our Affiliates managing alternative strategies.

Having committed more than \$1 billion across five new growth investments so far in 2025, we continue to actively expand AMG's participation in areas of secular growth. We have an excellent capital position, which was further enhanced by the significant proceeds from the sale of our interest in Peppertree and Comvest. And given our ample financial flexibility and our distinct competitive advantages, we have an outstanding opportunity to further increase our earnings growth by continuing to make growth investments and return capital to shareholders.

Finally, it has been an extraordinary year for AMG in terms of both organic growth and new Affiliate investments, laying the groundwork for accelerating EBITDA and earnings growth in 2026. As we continue to execute our strategy, building upon more than three decades of successful partnerships, we are confident in our ability to continue to generate long-term earnings growth. And with that, I'll turn it over to Tom.

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

Thank you, Jay, and good morning, everyone. AMG's activities over the course of this year illustrate our strategy in action. As we evolve our business mix more toward alternatives, our business is generating strong organic growth in both liquid alternatives and private markets. And we continue to invest in both our Affiliates and in AMG's own capabilities to support future growth opportunities.

This year, we have entered four new investment partnerships with alternative firms squarely aligned with long-term secular growth trends. We also announced a strategic collaboration to bring structured credit products to the U.S. wealth marketplace with BBH Credit Partners, highlighting the strength of AMG's capital formation capabilities. And we engaged strategically with our Affiliates across a range of business initiatives, including new product launches, building out adjacent capabilities, and supporting two of our private markets Affiliates and their sales to consolidators.

Taken together, these strategic actions and many other elements of our unique model drove significant earnings growth and cash flow generation, which we have invested and will continue to invest for growth, fueling the execution of our strategy and the forward evolution of our business, while simultaneously returning capital through share repurchases and further delivering value to our shareholders.

In the third quarter, AMG delivered \$9 billion in net client cash inflows and \$17 billion on a year-to-date basis, representing an annualized organic growth rate of 3% thus far in 2025. Our strong organic growth this year reflects rapidly growing client demand for liquid alternative strategies and ongoing momentum in private markets fundraising. In the quarter, our Affiliates generated \$18 billion in net inflows in alternatives, more than offsetting \$9 billion in outflows in active equities and highlighting the advantages of AMG's business profile that is increasingly weighted toward high-growth alternative asset classes.

In liquid alternatives, our Affiliates' value proposition continues to resonate with clients. With \$14 billion in net inflows, AMG posted the strongest quarterly net flows in liquid alternatives in our history, driven primarily by tax-aware solutions, and supported by positive contributions from a number of Affiliates. Client demand for tax-aware strategies remains substantial, and AMG's Affiliates offer highly attractive products. And more broadly, AMG's diverse group of Affiliates managing liquid alternative strategies is well positioned to deliver excellent risk-adjusted returns for clients and attract new flows over time.

Our private markets Affiliates raised \$4 billion in the quarter, mainly driven by another strong quarter at Pantheon and positive contributions from EIG and Abacus, demonstrating the diversity of our Affiliates' offerings across private market solutions, credit, private equity, real estate, and infrastructure. The ongoing fundraising momentum of our private markets Affiliates reflects investors' conviction in their specialized investment strategies, along with the impact of ongoing secular growth trends.

Looking ahead, the management and performance fee potential across our private markets Affiliates, including some of our most recent new investment partnerships, which are not yet reflected in our results, represents a significant source of upside for the long-term earnings profile of our business. As we continue to form new partnerships with growing high-quality independent firms, such as our new investments in Northbridge, Verition, Montefiore and Qualitas Energy this year, and our strategic collaboration with BBH Credit Partners, we are broadening our exposure to fast-growing specialty areas within alternatives and further diversifying our business.

BBH's taxable fixed income franchise has delivered top-quartile performance across strategies and market environments. Our strategic collaboration will bring the firm's industry-leading structured and alternative credit expertise into the US wealth marketplace. As high-net-worth clients and their advisers continue to drive demand for alternative strategies, credit remains a core focus, and the return characteristics and scalability of structured credit make this area uniquely attractive.

BBH is one of the industry's longest tenured and most active players, with a differentiated structured credit investment track record across the full capital stack, and in combination with AMG's product development and distribution capabilities, we see significant opportunity to build unique investment solutions to meet growing demand.

AMG provided excellent alignment with BBH's goals for a number of reasons. The complementary strengths of our respective businesses, access to significant seed capital, the permanent nature of our model, and strong cultural connectivity across our firms. The strategic collaboration will accelerate the expansion of BBH's structured credit franchise and will further enhance AMG's position as a leading sponsor of alternative strategies for the US wealth market.

The rapidly growing demand in U.S. Wealth for distinctive alternative products is one of the most visible megatrends in the asset management industry today, and AMG is uniquely positioned to benefit. AQR has been a leader for more than a decade in developing and delivering excellent investment solutions to U.S. Wealth clients, and its innovation in tax-aware strategies continues to drive rapid adoption.

Pantheon was one of the earliest innovators in limited liquidity vehicles in private markets, and product development and flows are accelerating across its product line. Our collaboration with BBH Credit Partners speaks to the success that AMG has seen thus far in driving growth in alternatives in the wealth channel, and we see significant opportunities ahead.

As clients increasingly look to AMG as the industry's leading entry point to access the differentiated alternative investment capabilities of independent partner-owned firms, AMG's footprint in U.S. Wealth is well positioned for rapid growth. Importantly, the success that we are having in the U.S. 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 many independent firms to do on their own.

As we continue to invest in new partnerships with alternatives firms, we look forward to collaborating with additional Affiliates to broaden their reach and expand their platforms. AMG's business has continued to evolve in 2025, driven by our focus on allocating our resources and capital to areas of secular growth. As we execute our strategy, we expect the contribution from alternatives businesses to further increase, enhancing our long-term organic growth profile and earnings profile, and we are excited about the opportunities ahead.

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

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

Thank you, Tom, and good morning, everyone. It has been an exciting year for AMG. In 2025 to date, we have committed approximately \$1.5 billion in capital across growth investments and share repurchases, and we continue to be in a strong position to execute on future growth opportunities and return capital to shareholders, given our significant cash generation and strong balance sheet.

I will start by walking through the results for the quarter, then will discuss the positive impact of recent capital activity on our forward earnings power, and conclude with a discussion of our balance sheet. In the third quarter, we reported adjusted EBITDA of \$251 million, which grew 17% year over year. This included \$11 million in net performance fee earnings and reflected a full-quarter contribution from Verition and Peppertree's final contribution.

Fee-related earnings, which exclude net performance fees, grew 15% year over year, driven by the positive impact of our investment performance and organic growth in our alternative strategies, partially offset by outflows from fundamental equity strategies. Economic earnings per share of \$6.10 grew 27% year over year, additionally benefiting from share repurchases.

Now moving to fourth quarter guidance. We expect adjusted EBITDA to be in the range of \$325 million and \$370 million, based on current AUM levels reflecting our market blend, which was up 1% quarter-to-date as of Friday, and including net performance fees of \$75 million to \$120 million, bringing expected performance fees for this year to between \$110 million and \$155 million.

This guidance includes a full-quarter contribution from Montefiore, a full-quarter contribution from Comvest's private credit business, and no impact from our announced investments in Qualitas Energy and BBH Credit Partners, which are expected to close in Q4 and Q1 2026, respectively. We expect fourth quarter economic earnings per share to be between \$8.10 and \$9.26, assuming an adjusted weighted average share count of 28.9 million for the quarter.

Looking further ahead, we anticipate a meaningful increase in our full-year adjusted EBITDA and economic earnings per share in 2026, mainly driven by strong organic growth and our capital allocation strategy, and I'll describe each of these further. Organic growth in our existing business is having a meaningful impact on bottom-line earnings. Strong organic growth in alternatives, including record inflows in alternatives year-to-date, is driving growth in AUM, having a positive impact on our aggregate fee rate relative to the prior year and incrementally expanding margins at some of our largest alternative Affiliates.

Furthermore, the approximately \$1.5 billion committed to growth investments and share repurchases, combined with the sale of our stakes in two of our private markets Affiliates is expected to substantially increase our earnings in 2026. Additionally, we believe there is incremental upside to our earnings potential over time as we strategically engage with each of our five new partners in the next phase of their success.

This combination of organic growth in our existing business and new investment activity has led to strong year-over-year earnings growth so far in 2025, and underpins our confidence in our 2026 earnings profile. Importantly, most of this earnings growth is in fee-related earnings, delivered by products with longer expected duration.

Finally, turning to the balance sheet and capital allocation. We repurchased approximately \$77 million in shares in the third quarter, bringing year-to-date repurchases to approximately \$350 million. We are increasing our full-year guidance for repurchases and now expect to repurchase at least \$500 million, subject to market conditions and capital allocation activity. Our balance sheet remains in a strong position with long-dated debt, significant capacity from ongoing cash generation and access to our revolver.

Additionally, we received pre-tax proceeds of approximately \$260 million from the sale of our stake in Peppertree, which closed in the third quarter and will receive approximately \$285 million in proceeds from the sale of our stake in Comvest. Given our ample financial flexibility, which is further enhanced by the proceeds from these Affiliate transactions, we are well positioned to continue to invest in growth opportunities and return capital to shareholders.

We continue to employ a deliberate, strategic, and disciplined approach to allocating our capital and investing in the ongoing growth of our business. We have a diverse, unique set of opportunities available to us, including investments in new Affiliate partnerships, in and alongside existing Affiliates, and in AMG capabilities. Through our capital allocation framework, we selectively engage in opportunities that align with our overall business strategy and that we believe will create significant long-term value. And looking ahead, we are confident in our ability to continue to generate substantial value for our shareholders. Now we are happy to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Bill Katz, TD Cowen.

Bill Katz - Cowen and Company LLC - Analyst

Jay, maybe one for you. I think the theme coming out of today's call is just the franchise momentum both from a de novo perspective as well as incrementally through inorganic. A: maybe I was wondering if you could just maybe delve a little bit more into BBH, how that sort of arose? Did they seek you out. And then just as you look at the pipeline looking ahead, how should we be thinking about activity level into next year after a really strong 2025? Thank you.

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

Great, good morning, Bill, and thanks for your questions. Let me take the first one just on the momentum. Tom, I'm going to ask you maybe to talk about BBH and then maybe you can send it back to me and we can talk about pipeline. So check them all off. So yeah, thanks, Bill. I think I agree with your set-up. It has been a landmark year for AMG, an output of our strategy, as you've heard us talk about it over the last six years, both inorganic and organic, our flow profile, which is driven by alternatives, it's been improving for some time now. This quarter is our second significantly positive quarter. It is building and we feel good about the continued strength of it.

Our strategic engagement with Affiliates, collaborating with them to magnify their long-term success, has generated meaningful results at places like Pantheon, AQR, Artemis, Garda, and many others where we're working on business development initiatives to enhance their value. It's been, as you've seen, one of the most active years for us in terms of new investment activity, near record levels of capital deployment. We've announced four new investments and a strategic collaboration with BBH, which Tom will talk about in a moment.

We've had two stake sales from two consolidators in Peppertree and Comvest. So it's just been an extraordinarily active year for us. Maybe looking at where the business stands today, alternatives contribute 55% of our EBITDA on a run-rate basis. We're working hard to increase that to more than two-thirds in just a few years from now. We think that will continue to sustain our organic growth and also we see good opportunities to make those new investments. And finally, as we have been committed to disciplined capital allocation, it has resulted in \$350 million of repurchases this year.

You heard Dava say that we've just updated our guidance to at least \$500 million for 2025. So it has been an extraordinary year in terms of both new investments and organic growth. And that lays the groundwork for accelerating EBITDA and earnings growth in 2026.

So maybe, Tom, if you wouldn't mind, give us a bit more detail on BBH.

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

Yeah, happy to. Thanks for your question, Bill, and good morning. I think Jay provided a lot of very good context in terms of our strategy overall. And really, when we think about the BBH strategic collaboration, it aligns very well with a number of different elements of our strategy and key themes and areas that we're really focused on like alternatives and like the growing opportunity for Alternatives in U.S. Wealth.

Over the course of the past couple of years, you've heard us on earnings calls and some of our meetings talk about this repositioning that we've gone through in our U.S. wealth business really to just focus that organization on the opportunity and alternatives. We've built a new Affiliate product strategy team. We've channelized our sales force to address both RIAs and the wirehouse opportunity. And we're partnering very closely with Affiliates like Pantheon to build, seed, and distribute differentiated investment solutions to U.S. wealth clients.

So in a lot of ways, the strategic collaboration with BBH is both a recognition of the success that we've had to date in going through that change to our U.S. wealth platform and the opportunity and the success that we're seeing, but also the next chapter in terms of opportunity to build on that success with a great partner like BBH.

BBH is one of the most respected and trusted brands in financial services globally, and we're very excited to work closely together with them. You asked how this came together. And effectively, I would say we found each other. They had an opportunity that they were thinking about in terms of an excellent structured credit franchise. We had a strong view on structured credit as an opportunity in U.S. Wealth and there was a real complementary opportunity for us to come together and try and build something together.

We do think that BBH choosing AMG to be their strategic collaboration partner is a very strong statement on our value proposition in U.S. Wealth. And I mentioned some of this in my prepared remarks, but we think AMG was the right partner for them for a number of reasons. As I mentioned, the complementary strengths of our respective businesses there in terms of underwriting, pricing, risk management around structured credit, and on our side, product development and capital formation resources, access to significant seed capital that we underwrote as part of this collaboration, the permanent nature of our model and also, very importantly, really strong cultural connectivity across our firms.

We spent a lot of time together, got to know one another very well. And I think we have a shared vision for where we can take this. So collectively, we're really excited about the collaboration. We think it will materially accelerate the expansion of BBH's structured credit capabilities, and also further enhance AMG's position as a leading sponsor of alternative strategies for the U.S. wealth market as we continue to build momentum in that area. So Jay, maybe back to you on the pipeline.

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

Yeah. Great. I'll just say one thing. It was very validating and rewarding that our capital formation capabilities, and that's an area, which, as Tom just mentioned, we've invested heavily in repositioning it. It was a centerpiece of this strategic collaboration with BBH and we do think it will allow us to drive more product in the wealth space around alternatives. So we're very excited about that.

Turning to the pipeline, Bill. So I know you heard me say that already that it's been near-record levels of deployment from our perspective. We continue to see opportunities to invest for growth in new and existing Affiliates. Our pipeline reflects this opportunity set. And maybe just giving a bit of color at a high level, we stay -- we're staying focused on areas of secular growth, both within private markets and liquid alternatives. Importantly, we are interested in businesses where AMG's strategic capabilities can add value and firms that would like to have a strategic partner. So that has increasingly become a part of the dialogue and part of our differentiated area for success.

We'd like to be able to magnify our Affiliates' business plans, their business initiatives, and we're doing so through our active engagement with Affiliates. We've had a proven track record of providing capital and resources in these areas, business development, product development, and distribution. So we're excited about continuing to add new Affiliates in areas that we think we can help them grow. This unique sort of advantage that we have now in addition to just preserving independence, which we've always done very well, as you know, the ability to magnify the advantages of partner-owned firms has really added to our attractiveness in the market.

The last thing I'd just say around our pipeline, in addition to -- we continue to have a significant opportunity to invest our capital and growth initiatives, we will remain disciplined as always. The goal is to ensure that we deploy our capital at the highest -- in the highest quality opportunities with a target mid- to high-teens returns as we've said in the past. We have been successful in doing that over the past six years. But if we cannot find good investment opportunities, we will look to return capital through share repurchases, and we've done that also during this period, having reduced our share count by 40%.

So maybe I'll just leave you with a summary of our new investment opportunity. We feel really good about it. We feel good about our ability to originate and invest in new Affiliates in areas of secular growth, and we're confident that we'll continue to meaningfully evolve our business through these growth investments and enhance shareholder value over time. So thanks, Bill, for your questions.

Operator

Alex Blostein, Goldman Sachs.

Alexander Blostein - Goldman Sachs Group Inc - Analyst

Thank you for the question as well. So lots of enthusiasm from you guys in 2026. It feels like it's a little bit earlier than typical to give guidance in '26, but I was wondering if you kind of could help contextualize what that could mean for next year given a number of moving pieces, including you alluded to expansion in the margins at AQR and Pantheon, that sounds like it's an important part of the story here as well. So any way you can help us frame what sort of the growth expectations you might have so far into 2026 would be helpful.

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

Yeah. Thanks, Alex, and good morning to you. I'll let Dava do the meat of this. Maybe just to set it up. One of the reasons why we're so excited about 2026 is that, as you've seen in the past, when we do new investments, the year in which we do new investments is a partial year. And so the full-year contribution from those new investments actually happens in the next year, in this case, 2026.

We've also had the added benefit this year of having organic growth really come into the middle of the year and the momentum continues. And as you heard, and you rightfully pointed out, there's an added benefit there because it's into businesses where we actually have margin expansion opportunity. So maybe I'll let Dava expand on what we're seeing in terms of mix and forward look. It is a little early to land on 2026, but I think we can give you a sense for it.

Dava E. Ritchea - Affiliated Managers Group Inc - Chief Financial Officer

That's right. Thanks, Jay, and thanks, Alex, for the question. At a high level, we expect the combination of new investments, share repurchases, and the impact of net inflows from alternatives to be impactful to our 2026 EEPS. Really, given the strategic evolution of our business profile over the last six years towards greater participation and alternatives, the EBITDA impact of the growth that we're seeing today is really meaningful.

The largest driver of that has been a turnaround in our net flow profile as we've moved the business from what was shrinking organically around 10% annually to a business that today grew 3% annualized on a year-to-date basis and 5% annualized this quarter. And as we've experienced an even larger EBITDA contribution, the past two quarters from our net flows, then our organic growth rate would indicate. So we're seeing some further expansion in EBITDA than you would expect in our net organic growth rate. This trend is occurring because of the bifurcation we've seen between strong organic growth on the alternative side, and the headwinds on the traditional side.

The growth in alternatives is moving the business towards a higher fee and longer lock strategies that, in some cases, have future performance fee and carry potential, while the outflows have been more isolated to lower fee open-ended equity funds. So even though we tend to own more of

the firms where we're experiencing outflows the higher fee rate from the alternative products have more than offset this impact. And we'll give some further guidance on the next earnings call in terms of our overall thoughts on 2026.

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

Dava, you might just want to also talk about just the composition between NFRE and PRE just briefly. I think that's also something that's meaningful that's happening.

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

Sure. So what's exciting that we've seen to date, again, based on both the combination of the new investment profile that we've had this year and also in terms of organic growth, we've seen our year-over-year aggregate fee rate and real growth in fee-related earnings. So you've seen that up about 15% on a quarter year-over-year basis. And the mix shift of our business is moving towards a higher contribution from fee-related earnings.

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

Okay. Thanks, Alex.

Operator

Dan Fannon, Jefferies.

Ritwik Roy - *Jefferies - Analyst*

This is Rick Roy on for Dan. So you reported another quarter of accelerating liquid alt flows, and it sounds like momentum in the tax-aware AQR strategies continues to be a big contributor towards that. So maybe on that, I was hoping you could add a little bit more color on the full diversity of flows coming from the AQR broader franchise, and maybe perhaps also describing the performance fee potential of the broader set of AQR strategies that are gathering inflows? And then maybe separately, if you could note any notable private markets fundraises to be aware of in the near term and into 2026, that would be helpful. Thank you.

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

Thanks, Rick, good morning. I'm going to let Tom just sort of give you an overview of flows, and I'm sure within that, we'll drill down on some of the trends that we're seeing.

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

Rick, thanks for the question, and Jay, actually, maybe after I go through this, you can give a little bit more color on AQR specifically, but I'll give you the whole picture and then we can fill in from there. To put the whole thing in context, our flows are primarily a function of three key drivers. The first is the alignment between our Affiliates' investment strategies and overall client demand trends. The second is the evolution of our business mix, and Dava just talked about some of this, as did Jay, over time through both organic growth rates, the relative organic growth rates of our different business lines, and the investments that AMG is making to form new partnerships and growth areas in line with our strategy. And then finally, the third driver is really the lift that we're able to provide at the AMG level to our Affiliates through new product development and distribution.

In terms of alignment with client-demand trends, with approximately 55% of our EBITDA now coming from alternative asset classes and a growing portion coming from wealth clients, our overall positioning is very well aligned with forward trends. In terms of where we go from here, as we look

to continue to push that percentage of EBITDA from Alts closer to the two-thirds level over the course of time, all of our recent new investment partnerships have been focused on alternatives. And significantly more than 100% of our total net flows over the past few years have also been in alternatives. And over that same time frame, we've grown Alternatives AUM on our U.S. wealth platform from about \$1 billion to more than \$7 billion. And you're seeing the cumulative impact of that business mix evolution on AUM, on our fee rate, as Dava just talked about, and on the contribution of EBITDA that's coming from alternatives overall.

So to go into the individual buckets in private markets, as I mentioned in my prepared remarks, our Affiliates raised \$4 billion in the quarter, and that's really a continuation of momentum that we've been seeing over the course of the past several years. It was another very strong quarter for Pantheon, alongside positive contributions from ELG and Abacus. And I think importantly, that really demonstrates the diversity of our Affiliate offerings across a variety of different areas, private market solutions, credit, private equity, real estate infrastructure, where our Affiliates are real leaders in these specialized strategies in the market.

Liquid alternatives was another record quarter for us, \$14 billion in net inflows. And as you referenced in your question, driven primarily by solutions for the wealth channel focused on after-tax returns at AQR, but importantly, with positive contributions from a number of our liquid alternative Affiliates, we're seeing real breadth in that area as well. This is now the fifth consecutive quarter where we've seen positive flows in liquid alternatives. And over that time period, we've seen \$3 billion in total net inflows.

Equities, we continue to see headwinds, and that's in line with the overall industry. You saw that this quarter with about \$9 billion in outflows. That said, it's been another good year for beta, and beta continues to support AUM levels overall. And we're also seeing some pockets of strength, Jay mentioned earlier, with Artemis and River Road. So there are some real bright spots that we're excited about there also.

So when you put all those things together kind of back into that initial framework, better alignment with overall client demand trends as we continue to shift our business, continued investments in new Affiliates active collaboration with our Affiliates to develop and create innovative new products that can help to drive client demand through our capital formation capabilities, together with our confidence in our ability to continue and maybe even enhance and accelerate the impact of these growth drivers going forward, we feel like we're in a really strong position from an overall franchise perspective in terms of forward organic growth opportunities.

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

And Rick, let me address AQR specifically. Incrementally, it has been very helpful to our flow profile, but maybe I'll highlight a few key attributes about that business. It is a very diverse business and the way I describe it is it's a liquid alts business, one of the top three in the world. It has a pretty significant tax-aware wealth business that has a different dynamic than just its overall institutional liquid alts business. And then it has a 40 Act long-only business as well. Because of its excellent performance, it's seeing inflows in each of these areas. And so I think we would be remiss without stating the obvious, which is a very big, diverse business with lots of different strategies and lots of different opportunities within it.

Maybe I'll highlight, though, as I did last quarter, a paradigm shift that's occurring in the wealth channel. And AQR has a leading position in this paradigm shift. The basic strategies to harvest losses, they've been around for decades, but AQR has brought in additional set of tools and capabilities to it. They've kind of unlocked the power of investing for after-tax outcomes with the use of liquid alternatives, specifically using long-short investing techniques, either to track market beta or they have a goal of absolute return, and that has generated superior after-tax outcomes, and that's what's leading to the significant flows.

The shift in focus by RIAs to after-tax outcomes from their historical convention of evaluating on pre-tax returns, we think this is just in the very early innings. So AQR has quite an opportunity ahead of them. As you know, they've been an innovator in liquid alternatives for more than 20 years now, their ability to bring new strategies and products to the market is one of the best in the industries. They've been building this tax-aware business for some time.

They've developed an entire suite of products inside of separate accounts, limited partnerships, and now mutual funds. Their strategies generate for us, management fees and many of them have a potential for performance fees. As I've said in my prepared remarks, AQR has the potential to

increase their fee rates here over some period of time as their flow mix changes. They also have an opportunity to increase their margins, and we feel that in our EBITDA contribution that Dava mentioned earlier.

I gave most of this background on the prior call. So I thought I might just kind of update you bring you forward on our thoughts today. So we see AQR as having a first-mover advantage. It obviously has a differentiated culture in an operating environment that is advantageous compared to most competitors. On the first-mover advantage, it takes time to get on platforms to penetrate the largest RIAs in the country to integrate into systems at the wirehouses. AQR has a more than two-year head start and is now finishing the onboarding just now with several of the largest wealth platforms. So they haven't even gotten on all of the parts of the market where they could distribute their product.

So we do expect continued momentum from AQR in this area. But I would be remiss if I didn't comment on the institutional business, again, with their great performance. They have a very nice pipeline building on the liquid alternatives side. And through the lens of AQR, we're seeing increased interest in liquid alternatives more broadly on the institutional side.

So maybe the last thing I'll say about AQR is that their assets have grown from approximately \$100 billion at the beginning of 2024 to \$166 billion as of September 30. And so you can see there's quite a bit of growth, and most of that came from organic flows. And thank you for your question. And thank you for your question, I appreciate it.

Operator

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

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