REFINITIV STREETEVENTS

EDITED TRANSCRIPT

AMG.N - Q4 2021 Affiliated Managers Group Inc Earnings Call

EVENT DATE/TIME: FEBRUARY 07, 2022 / 1:30PM GMT

OVERVIEW:

Co. reported economic EPS for full year and 4Q21 of $18.28 and $6.10 respectively.

CORPORATE PARTICIPANTS

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

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

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

CONFERENCE CALL PARTICIPANTS

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

Craig William Siegenthaler *BofA Securities, Research Division - MD & Head of the North American Asset Managers, Brokers & Exchanges Team*

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

Patrick Davitt *Autonomous Research LLP - Partner, United States Asset Managers*

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

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

PRESENTATION

Operator

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

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 fourth quarter and full year 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 the reconciliation of any non-GAAP financial measures, including any earnings guidance announced on this call. In addition, we posted an updated investor presentation to our website this morning and encourage investors to consult our site regularly for updated information.

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

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

Thanks, Anjali, and good morning, everyone.

AMG achieved outstanding results in 2021 through the strong execution of our growth strategy, the excellent performance of our Affiliates and increasing momentum across our business. AMG generated over $1 billion of EBITDA, up 33% year-over-year, and record Economic earnings per share of $18.28, representing annual growth of 37%. Our demonstrated commitment to investing for growth across both existing and new Affiliates while simultaneously returning [excess] (added by company after the call) capital to shareholders has resulted in significant business momentum and compounded earnings growth, which continues in 2022.

Stepping back, over the last few years, we have renewed our focus on AMG's foundational values of entrepreneurial spirit, ownership mindset, and disciplined execution, which has resulted in reinvigorating our new investment strategy, enhancing our strategic engagement with Affiliates and realigning our resources with our most significant growth opportunities. Through these initiatives, we have meaningfully increased our long-term earnings power, and more importantly, are reshaping our business in favor of fast-growing areas, including private markets, liquid alternatives, Asia, wealth management and ESG. All of which are well-positioned to deliver strong growth over time.

More broadly, we believe that the investment environment has fundamentally changed. Following a decade of globally coordinated monetary policy, ultra low rates and highly correlated returns across asset classes, a new paradigm is forming.

Looking ahead, given the combination of elevated inflation, rising interest rates, and an increasing focus on climate change and sustainability, taking an active approach to investing is critical to achieving clients' goals and objectives. AMG's Affiliates are industry-leading active managers, with proven track records of delivering excellent risk-adjusted returns for clients across market cycles and are well-positioned for this evolving environment.

In parallel with the fundamental shift in the investment environment, clients are changing the way they manage their exposures as well. And all of these developing trends will continue to shape our strategy and the way that we and our Affiliates engage with clients. Among the trends that are influencing both our capital allocation decisions and our financial results are the ongoing demand for private markets, the diversifying power of uncorrelated liquid alternatives and an increasing appetite for sustainable investing. Today, AMG is structurally well-positioned in these areas.

Within private markets, our Affiliates manage $120 billion in AUM across roughly 30 global and regional private equity, credit, direct lending, real estate, infrastructure and private markets solution strategies, offering investors diversification, income and inflation protection across market cycles. We have established 3 new partnerships in this segment over the last 24 months, in Comvest, OCP Asia and Abacus, and have invested in distribution and product development at Pantheon, PFM and Baring Asia to continue to address growing demand for both institutional and wealth investors globally.

And now that we have completed the repositioning of our U.S. Wealth platform, we are investing in private markets, resources and product development to accelerate our Affiliates growth in this attractive client segment. Collectively, our Affiliates have raised nearly $25 billion in the private markets over the course of 2021, generating organic growth north of 20%, and each have significant dry powder to capitalize on market opportunities ahead.

The changing environment is also creating greater opportunities for liquid alternatives as correlations fall across markets and the demand for these unique return streams has rapidly improved. Our liquid alternative Affiliates had an excellent year in 2021, generating significant returns and performance fees while navigating volatility and protecting capital.

Strong flow trends continue for Capula and Garda, and each is focused on product innovation. And we began 2022 with an incremental investment in Systematica, one of the industry's leading technology-driven alternative managers. Through Leda Braga's outstanding leadership, Systematica has grown and diversified substantially since AMG's initial investment in 2016 and is well-positioned to benefit from increasing client demand for absolute return streams and portfolio diversification.

A consistent theme across our client conversations today is the desire for, and increasing focus on, sustainable investing and active stewardship. As I've 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.

Dedicated ESG strategies across our Affiliates now account for over $90 billion of our assets under management, a segment that is growing organically at a double-digit rate. Two ESG pioneers, Parnassus and Boston Common, joined as new Affiliates in 2021, each with a multi-decade and differentiated track record of sustainable investing. In addition, we are collaborating with a number of our Affiliates to broaden their capabilities in this area. Recently, we assisted Artemis in launching a new ESG strategy, while also adding new ESG products to our U.S. Wealth platform. As client demand for ESG investing continues to accelerate, our Affiliates' authentic approach will be an ongoing area of differentiation for AMG.

Our strategic focus on the fast-growing areas of private markets, liquid alternatives and ESG strategies, along with our Asia focus and wealth management businesses, have collectively become a more significant contributor to our overall growth profile. Our Affiliates in these areas generate approximately $35 billion in client flows, which accelerated in the second half of the year, and we will continue to invest in these attractive areas. As I said earlier, we are focused on long-term sustainable growth. And the strategic decisions we are making today with our capital and resources are aligned with the growth opportunities we see over the next decade. AMG's business model is uniquely advantaged in this respect. We have the ability to shape and scale our earnings power through new investments, the magnitude of which is evident across our recent transactions. In 2021, we partnered with 4 new Affiliates operating in fast-growing areas. And so far in 2022, we've made a significant incremental investment in Systematica, which together will contribute approximately $120 million in annual EBITDA going forward.

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. As we continue to invest in high-quality new Affiliates and in growth opportunities at existing Affiliates using a disciplined capital allocation framework, we are able to meaningfully enhance our growth profile over time. Given our ability to invest for growth and evolve the shape of our business, together with share repurchases, the long-term opportunity to compound earnings growth is clear. And we are uniquely positioned to deliver significant shareholder value over time.

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

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

Thank you, Jay, and good morning, everyone.

As Jay highlighted, we delivered excellent results in 2021, with strong momentum across Affiliate performance, organic growth and capital deployment. And we enter 2022 with enhanced earnings power and significant liquidity and capital flexibility. Our diverse group of Affiliates is well positioned to deliver strong outcomes for clients in an environment where active management is critical to navigating the fundamentally changing investment landscape. And we continue to focus on strategically evolving our business towards attractive secular growth areas and driving long-term durable earnings growth.

Turning to the quarter. Adjusted EBITDA of $357 million grew 40% year-over-year and Economic earnings per share totaled $6.10, up 45% year-over-year. On a full year basis, adjusted EBITDA of $1.06 billion and economic earnings per share of $18.28 each grew more than 30% versus the prior year. Net client cash flows, excluding certain quantitative strategies, were $4 billion for the quarter. Outflows from certain quant strategies totaled $10 billion and continue to have a de minimis impact on our earnings. Over the course of 2021, our core organic growth trends gained momentum quarter-by-quarter, delivering $14 billion in total inflows ex quant for the year. We enter 2022 with an enhanced overall AUM, earnings and organic growth profile, with a strong presence across private markets, liquid alternatives, Asia, wealth management and ESG strategies, areas where active management is delivering significant value for clients, and growth is accelerating.

Turning to business performance by asset class and excluding certain quantitative strategies. In Alternatives, net inflows totaled $12 billion driven by strength across private markets and liquid alternatives, and reflected the continuing impact of our strategy to evolve our business toward growth. In private markets, we continue to see very strong fundraising levels across Baring Asia, Pantheon, EIG and Comvest, with net inflows totaling $9 billion for the quarter and nearly $25 billion for the full year. Interest in private market strategies continues to grow as both retail institutional clients seeking long-term returns and alternative sources of income look to increase their allocations, and these long-duration assets are adding further stability and diversity to our earnings. We are also experiencing increasing demand for our liquid alternative strategies, [particularly] (added by company after the call) given their excellent performance track records and demonstrated ability to deliver absolute returns and uncorrelated alpha to client portfolios. Collectively, our liquid alternative managers, including Systematica, ValueAct, Capula and Garda, delivered outstanding performance to clients in 2021 and generated substantial management and performance fees for AMG.

Moving to global equities. Net outflows of $8 billion were driven by two large institutional redemptions, which accounted for 2/3 of the activity in this category. Overall, our Affiliates investment performance remains strong and the environment for high-quality active managers continues to be favorable. Our global equity Affiliates offer differentiated strategies where we continue to see client demand, including in Asian equities and

ESG. We are confident that with our strong performance and diverse offerings, we are well-positioned to attract increased client allocations in the future.

Within U.S. equities, we reported net outflows of $1 billion, reflecting Q4 seasonality. We are excited about the growth potential for this category overall. And our long-term investment performance remains excellent, with approximately 75% of assets outperforming on a 5-year basis. We experienced strong demand for our ESG and value-oriented Affiliates, including Boston Common, Parnassus, Yacktman and River Road, and are well-placed to benefit in 2022 from current market trends and investor focus on sustainable and impact investing as well as the implications of higher rates and inflation.

And lastly, in multi-asset and fixed income, we generated inflows of $1.5 billion for the quarter and $4 billion for the full year, with a continuation of steady growth in our wealth management businesses. These businesses continue to deliver a valuable combination of organic growth and long-duration assets and earnings [going into 2022] (added by company after the call).

Turning to financials. For the fourth quarter, adjusted EBITDA of $357 million grew 40% year-over-year, driven by strong Affiliate performance and the addition of our recent new Affiliate investments. Economic earnings per share of $6.10 grew 45% year-over-year, further benefiting from share repurchases. We generated $122 million of net performance fees in the fourth quarter, driven by excellent investment performance, most notably in our liquid alternatives category. And we see a growing opportunity to generate performance fees across our diverse set of absolute return, beta-sensitive and private market strategies that builds on itself over time, as strong performance leads to inflows, which translate into higher asset levels and a greater opportunity to generate earnings growth in the future.

Historically, performance fees have proven consistent and durable, averaging approximately 10% of annual earnings, with significant upside asymmetry to those levels in certain years, similar to what we experienced in 2021. Not only do performance fees contribute a steady recurring earnings stream, but they also represent a meaningful source of capital to facilitate the execution of our long-term growth strategy.

Now moving to specific modeling items for the first quarter. We expect Adjusted EBITDA to be in the range of $235 million to $245 million based on current AUM levels, which reflects our market blend down approximately 4% through Friday. This guidance reflects performance fees of up to $10 million and the full impact of our recent investments in Abacus and Systematica. Our share of interest expense was $29 million for the fourth quarter, and we expect a similar level in the first quarter. Controlling interest depreciation was $2 million in the fourth quarter, and we expect the first quarter to be at a similar level. Our share of reported amortization and impairments was $88 million for the fourth quarter. We expect it to be approximately $30 million in the first quarter. Our effective GAAP and cash tax rates were 30% for the fourth quarter. And we expect GAAP and cash tax rates to be 26% and 18%, respectively, in the first quarter. Intangible-related deferred taxes were $1 million this quarter, and we are expecting $15 million in the first quarter. Other economic item adjustments were negative $12 million for the fourth, reflecting the exclusion of mark-to-market gains. In the first quarter, for modeling purposes, we expect other economic items, excluding any mark-to-market, to be $1 million. Our adjusted weighted average share count for the fourth quarter was 41.8 million, and we expect our share count to be approximately 41 million for the first quarter.

Finally, turning to the balance sheet and capital allocation. 2021 was a very active year and we deployed more than $1 billion of capital into growth investments as well as share repurchases. In line with our strategy, more than half of that capital was allocated toward growth, including across the 4 new investments we made in private markets and sustainable investing firms. Additionally, in January, we completed an incremental investment in Systematica, a leading global technology-enabled alternatives manager, further increasing our economic exposure to in-demand, uncorrelated return streams. These investments were structured and priced to deliver strong shareholder returns across a range of outcomes and are expected to collectively contribute approximately $120 million of EBITDA in 2022. For the full year, we also repurchased $510 million of shares, including $120 million in the fourth quarter, reducing our shares outstanding by 8% for the year. We remain committed to returning excess capital to shareholders through share repurchases. And in 2022, we expect to repurchase approximately $400 million of shares, subject to market conditions and new investment activity. In addition, we took advantage of last year's favorable financing environment to extend the duration of our balance sheet by issuing a 40-year hybrid note and extending our revolver and term loan through 2026. And we enter the year with a very strong balance sheet and ample capacity to execute on the significant and broad ranging growth opportunities we see ahead.

Our business continued to evolve in 2021, driven by our focus on allocating our resources and capital to areas of secular growth, including the key themes that Jay focused on: private markets, liquid alternatives and ESG. We have demonstrated our ability to successfully compound earnings, leveraging our unique growth drivers. And today, our business is in as strong a position as it has ever been. We are excited about the opportunities ahead of us and are well-positioned to create significant value for our shareholders over time.

Now we're happy to take your questions.

QUESTIONS AND ANSWERS

Operator

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

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

Maybe I'd just like to start with maybe actually one question, 2 parts. But looking at Systematica, could you maybe update us on, I guess, 2 related things. And number one, how you see the opportunity set for similar types of kind of increases in your stakes in existing affiliates through in a similar manner? And then secondly, maybe as we look ahead, I mean, there's a certain amount of existing stakes that get put, I guess, get back to you, it could get put back to you over the coming year. Could you maybe just update us on what that would be? And maybe what would that mean for capital usage and maybe any EPS accretion or ENI accretion that would come from that?

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

Yes. Thanks, Rob. Let me take the first part of this question, which I'll expand and just talk about Systematica. I'll also talk about our investments in our minority-owned existing Affiliates. And then, Tom, maybe you'll talk about the recycling and the Affiliate equity through the year after that.

So let me start by talking about Systematica. Very excited about this transaction. Systematica, as you know, led by Leda Braga, is widely recognized as one of the industry-leading systematic trading managers in the world. And it's one of the largest, if not the largest, woman-owned and women-led alternative firm in the world. The business had a great 2021 and strong momentum into 2022 given its performance. It has a unique profile in the market in liquid alternatives. It's most notable product, Systematica Alternative Markets, which is known as SAM, was up 28% last year. They also recently launched China Markets strategy, which is growing quickly and generating excellent returns.

And over the past 6 years, Leda and her team have grown Systematica into a $13 billion business. That's a 50% increase from the $8 billion that we saw at the time of our initial investment. And that growth is accelerating. We do see momentum going into 2022. It's a diversified business today, from one primary strategy 5 years ago to 5 distinct systematic strategies, and each has scale. We have tremendous respect for Leda and the rest of the team there. The opportunity to increase our investment in Systematica at this time was exciting. Leda participated in the purchase. We did purchase an ownership stake from a prior owner, and that completed the full transition of the business. In this case, we decided to accelerate our repurchase of the remaining interest given our confidence in the business and its forward prospects. We're now even more aligned strategically and we expect to collaborate more closely with Systematica on long-term opportunities for the business. With this increased ownership stake, we are still a minority investor. The majority of [the business] (added by company after the call) remains in the hands of Leda.

Let me now turn to your question and answer it directly. Taking a step back, when we make a majority investment, we generally provide full succession planning, which means we're actively involved in the recycling of equity across generations. That really is your second question here, and Tom will get to that in just a moment. With Systematica, which is a minority investment, we actually had a contractual plan in place to purchase more as part of the initial transaction. So this was really fulfilling an obligation from the initial transaction. We did accelerate it because of the performance of the business.

But in minority investments in general, our structure has a fair amount of optionality built into it. We have an opportunity to work with those Affiliates to find a path over time that creates the most value for both partners, their clients and our shareholders. If that takes the form of an additional investment, we treat it like we would treat any new investment. We run it through our disciplined capital allocation process, with the benefit of knowing the business well, having years of diligence and having a view on the opportunity. In addition, we often have a variety of ways to invest in the growth of these businesses along the way including seeding products, facilitating lift-outs, M&A, and putting resources to work. So there's lots of opportunity to invest alongside of the business. And when there's an opportunity to invest into a further stake, we again treat it like a new investment.

But overall, in these minority stake transactions, we don't set out with a predetermined outcome in mind. We do believe that our differentiated position in the market is succession planning. So oftentimes, these will move towards a full succession plan. But we just want to partner with great businesses. We want to work with them on their strategic objectives. And we want to further those strategic objectives of individual Affiliates. So maybe now I'll turn it to Tom to talk about the forward [outlook] (corrected by company after the call) for recycling.

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

Thanks, Jay, and thanks for the question, Rob. So in terms of Affiliate equity repurchases and recycling, you should assume that on a normalized basis, we're doing something like $100 million to $150 million a year. And that midpoint was probably a pretty good number for 2021. I think you should think about that as being a pretty good number for 2022 as well. These repurchases tend to be at a very constructive multiple so they do tend to be accretive to our earnings. They're part of an ongoing process to ensure that we have an appropriate level of equity in the hands of the partners running these businesses, so it's really a dynamic process.

A lot of the repurchases also tend to be skewed towards those businesses that have grown the most. We're buying more of our highest quality businesses, so it's something that ultimately is accretive to our earnings profile. With respect to the capital planning part of your question, we generally have good visibility into the timing and quantum as well as controls in place to make sure that we're managing the magnitude in any given year. So you should assume that as we go through our capital planning process, we have pretty good color on where we're going to be spending our capital with respect to Affiliate repurchases. And when we give you guidance for $400 million of repurchases, you should assume that we've got quite a bit of firepower earmarked for making new investments, in addition to Affiliate equity repurchases, and then in addition to our ability to complete share repurchases as well.

Operator

Our next question comes from the line of Craig Siegenthaler with Bank of America.

Craig William Siegenthaler - *BofA Securities, Research Division - MD & Head of the North American Asset Managers, Brokers & Exchanges Team*

So as you compete for new deals in the private market space, I want to see if you could talk about some of the qualities of your targets and also your capital terms and see how they're different than the largest 3 general partners staking models out there. And I also want to know, as these firms and their businesses have gotten larger, if you've also seen any increase in the competitive intensity for deals just in the private markets vertical.

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

Yes. Thanks, Craig, for your question. I'll take that. And if I missed anything, Tom, feel free to add. I'm going to, obviously, take a step back first and just restate that -- and I think everyone on the phone knows this, we offer a permanent partnership solution to independent firms. Our primary objective is to be an excellent strategic partner supporting our Affiliates to achieve their long-term objectives. Ultimately, we want to do what's in the best interest of their businesses, their partners and their clients.

What we're most known for, of course, is succession planning. We have done succession planning over 3 decades. I think we're the best at it and I think we've proven that over a long period of time. We also offer growth capital and liquidity through minority interest transactions. And it's there where we, from time to time, bump up against what you would call stake buyers in the private markets businesses. But we see our partnership solution as differentiated relative to any strategic alternative or competitive offering because we support independent firms with our resources and our capital while also letting them run their businesses. And so I think that's an important differentiation. We are in the business of independents and we don't compete with our Affiliates.

In fact, we designed all of our resources and support services to help our Affiliates with their growth plans so that we are collectively better together as partners. And our reputation was built on the long-term success of being a supportive partner over all these years. So we have the longest continuous track record of success. And I believe we're entering a significant growth phase for AMG. We have been one of the most active investors in independent firms over the past 2 years. We are focused on making disciplined capital decisions. And so that does cause us to be very thoughtful about both structure and pricing in transactions. We aren't interested in chasing extraordinary prices if we don't think it will endure to the benefit of our shareholders.

Just to recap. We've added 8 new Affiliates over the last 2.5 years, including a ninth investment, if you will, a further investment in Systematica. Maybe getting to the strategic view of what we are looking for in our new investment strategy, that the areas that we're focused on, are areas of long-term secular trends. And I'll just mention, and we've said this before, areas such as private markets, liquid alts, ESG, Asia, and Wealth - those are the areas that we are strategically prospecting for. I think you can see in our most recent results that we have been successful in adding to private market Affiliates this past year and also added 2 dedicated to sustainable investing. And obviously, Systematica is in liquid alternatives so everything we've done is really consistent with our strategic prospecting efforts.

We do see the transaction environment continues to be favorable for us. There are not many competitors out there who are able to offer independence. There's a much greater skew towards consolidation in the market. So we see that within those areas that we're focused on, the opportunity to continue to partner with the very best midsized asset management firms. To specifically touch on our pricing and our structuring, as you know, over a really long period of time, the goal of AMG is to offer fair prices to Affiliates, but to really focus on the portion that they do not sell. So our partnership is, in all respects, the true partnership. Once we've made the investment, we and they are trying to maximize the value of their remaining ownership and collectively our aligned ownership. So the support services that we deploy on behalf of our Affiliates have helped them grow over a long period of time. It continues to set us apart. And again, we have the longest track record of supporting Affiliates' independence for over 3 decades now. Tom, is there anything you'd like to add?

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

I think you covered most of it. Maybe just one quick point, which is I think another big differentiator for us in the market, is the flexibility of our solution. The firms that you referenced tend to take a very direct approach in terms of the amount of performance fee and management fee EBITDA of a business that they're willing to capitalize. AMG takes much more of an alignment oriented approach. And we really try to bring a blank piece of paper type solution to every individual scenario.

So as Jay spoke about, a lot of the value-add things that we bring to the table in terms of distribution and strategic support are critically important. And when you put those hand-in-hand with having a lot more flexibility around creating an aligned structure, I think that also endures to our benefit quite a bit for those businesses who really have a strong sense for what they're looking for in the market.

Operator

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

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

Great. So just trying to tie some numbers together for a moment. I think in 2021, it sounds like you did a combination of deals and buyback that was effectively equal to EBITDA -- adjusted EBITDA. Just sort of running some of your math here, and not taking into consideration the seasonality of fourth quarter '22 performance fees potentially. If you simply annualized the quarterly guide on adjusted EBITDA, and you get a $900 million plus type number, round the business. You sort of guided to $40 million for buyback, and round numbers, $125 million for recycling. A, why not more buyback; and B, can you maybe give us a discussion on how you sort of see the deals absorption relative to residual cash flows?

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

Yes, Bill. Thank you. Tom, that's a perfect one for you to answer. Maybe review our capital last year and our forward view.

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

Sure. Thanks, Bill, for the question. I'll just start on really a framework around earnings guidance so you can take all the factors that you walked through and put them together. Going back well before my time at AMG, we have a long history of providing a framework to think about earnings. First, we always give you color on EBITDA and economic earnings per share a quarter forward, and then we break out performance fees. So you have a pretty good sense for the underlying trends that get you to a run rate for the business.

And then you can put some basic market and growth assumptions in as well. Second, we told you that we think 10% of our earnings is a pretty good average level to model for performance fees over the full year. So that gives you a good sense for overall earnings power. And then, Bill, to your point, we did provide guidance on repurchases, and that's about $400 million for 2022. And I'll talk a little bit more about capital overall and how we get to that. So then knowing the overall earnings power of the business, the amount of cash we'll spend on repurchases, we talked in on earlier question about Affiliate repurchases as well, you can back into how much capital we have to invest for growth. And that's going to be primarily through new investments. And none of that is in the run rate today. So when you take all of that together, I think you've laid it out in a good way, you can get to a really good framework for being able to get a sense for the overall earnings power of the business.

With respect to capital allocation overall. Look, first and foremost, there's a lot of momentum in the business. And that translates into strong and recurring free cash flows. And combined with the flexibility and duration of our balance sheet, it gives us the ability to execute on our investment opportunity set and return excess capital to shareholders. And you saw that in a meaningful way in 2021. We put more than $1 billion of capital to work, including in 4 new investments that we expect to contribute more than $100 million of EBITDA next year. And we also repurchased $510 million worth of shares.

So when you go into 2022, with a new investment already in Systematica, we're really trying to tilt more toward growth. We're going to continue to be disciplined. We're going to continue to be return-focused. All of our capital allocation decisions are running through a common framework to ensure that we're earning an appropriate risk-adjusted return for our shareholders and also making the best long-term decisions for our business.

And to your point, we do strongly believe that new investments are our best use of capital and that investing in high-quality businesses is how AMG is going to create substantial long-term shareholder value, given both the organic growth and the EBITDA growth impact that these businesses have, as well as our ability to optimize our capital structure and the tax advantages and our focus on structuring for a range of potential outcomes. So long story short, we think we really have the ability and the capacity to do both, to continue to invest aggressively for growth and then to be able to return capital through repurchases as well.

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

Yes. I'd like to come over the top here and just say that being part of that long history of the framework myself, another way to look at this, just top down, is we have about $1 billion to spend. We articulated that our plan is $400 million of share repurchases, plus the recycling that Rob Lee asked about, call it, $100 million to $125 million. And we just did Systematica in the first several days of the year, so I'm going to throw in another $125 million to $150 million range on that. So $550 million would be a round number to think about what we've articulated. What we haven't articulated, or what we don't know the timing of, is further new investments. What we do know is we have a robust pipeline, and we do have conversations that continue in various stages.

I would describe that as some are more advanced than others. But even those that aren't advanced can move quickly. So those numbers are not out there as you think about it in your own planning of 2022 numbers, you have to think about the amount that we've reserved on. And the last thing I'd say is, I used $1 billion, but for the right opportunity, could we take leverage up a little bit? Sure, we could. So that number could expand. There's flex around that $1 billion. But I think that's just a good number to have in your head. And so far, we really only planned for the amounts that we have. Hopefully, those will be new investments. If not, we will consider further repurchases.

Operator

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

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

So a couple of questions just on flows, and I appreciate the additional disclosure in the deck. And so looking at Slide 8, could you remind us exactly what certain quant strategies you're talking about that are included in the AUM so we know what's included and not? And then as you think about the momentum in this chart and what you're seeing, if you could elaborate as we think about 2022 and where -- how you see that progressing in the context of these 2 asset classes. And then also just could you provide a little more color on the global equity bucket for this past quarter where you -- it was basically -- I think the largest outflow we've seen in some time, and you called out a couple of mandates, but maybe other trends within that bucket would be helpful.

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

Yes. Thanks, Dan. I think Tom and I will need to tag team this. But let me start with some perspective and then I'll turn it to Tom to answer the more specific questions that you've asked. And so on that perspective, I think the first thing I would like to note is that we don't think about flows quarter-to-quarter. And what we have done on this new chart is actually shown a rolling 12 months. And I think at least that gives you a longer-term perspective. But really, we're focused on long-term sustainable growth. And the strategic 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.

And we think we're still in the early innings in terms of seeing results on the organic growth side as we execute our strategic plan. As we continue to evolve our business towards the secular growth areas like private markets and liquid alts, ESG, Asia, Wealth Management, as I described in my prepared remarks, given that these businesses are growing faster organically than the industry overall and faster than our existing business, we expect our results to further reflect improving flows and earnings contribution in the future.

And so what you're seeing is very intentional on our part. It takes some time, but you have seen it in our results over the last 4 quarters. And look, I think we've got really good momentum because we saw those flows in those areas accelerate in the back half of 2021. Each of those areas, private markets, liquid alts and ESG are growing at double-digit rates. So our flows really are going to be an output of successfully executing on our strategy. And as we continue to reshape our business mix towards these various areas of secular growth, both by doing new investments, but also growing and helping our existing Affiliates in these areas, whether that's our own support services or making investments directly in Affiliates through seed capital or other types of strategic opportunities.

We see this profile for us continuing to improve like it did over the entire course of 2021. And frankly, it started way back in 2020. So when I look forward from here, I do think we're in the best position from a forward growth perspective that we've been really in the last 4 years. And as I say, I really want to focus on the fact that it's going to take some time, but we're definitely putting up some results in this regard. So now, Tom, why don't you give some more color, put the fourth quarter in context and maybe specifically talk about global [equities] (added by company after the call).

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

Thanks, Jay, and thanks for your question, Dan. So I'll go a layer deeper and give you some more color on the themes that Jay laid out. And Dan, let me try and address your 2 specific questions first. On the page on certain quant are really the way we've been talking about our flows now for some time. What we've done is we've tried to take a look at those businesses that continue to be a relatively large part of our AUM, but are contributing a disproportionately small piece of our earnings. So effectively, where we believe the AUM flow profile is obfuscating what's actually happening under the surface in terms of earnings contribution.

And we've done that at the Affiliate level and really just try to take a broad stroke at it. And you can see on that page, that AUM contribution to our business was about 26% going back 2 years ago and has come down to about 16% in terms of overall AUM today and contributing less than 2% on an EBITDA basis. On global equities for the quarter, we had about $8 billion out, excluding challenged quant. That was primarily driven by 2 large institutional redemptions that are about 2/3 of that number. The overall performance in the category remains strong. We feel good about the quality of our managers. We feel good about some of the differentiated strategies we have, particularly around Asia and ESG. So we think in the long term, that business is in very good shape.

When we go into some more detail, our setup for future growth is really a result of executing against our strategy. A lot of the headwinds we faced historically in areas like quant have lessened. They aren't meaningfully impacting our earnings, as I've said. And frankly, we have a lot of optionality to the upside from here. We've been very purposeful about reallocating our resources and repositioning Affiliates in favor of growth. And we continue to aggressively invest in growth areas to evolve our business mix. And you're seeing that in terms of the impact on our flows this year. We had approximately $25 billion of inflows in private markets.

And over the last 3 years, we've seen double-digit organic growth in private markets each year. And we have every reason to believe that, that should continue, aided by momentum at existing Affiliates, like Pantheon, Baring Asia, EIG and Comvest, as well as newer Affiliates, including OCP and Abacus. And as we invest further into private markets, we're also increasing the diversification of our business, which really allows us to be active in the fundraising cycle at all times. We generated $5 billion of flows this year in liquid alternatives, where performance is excellent, and as you know, is driving substantial performance fee generation as well, highlighted really by Systematica, Garda, Capula and ValueAct.

Active management is clearly playing a leading role in ESG. And with the addition of Parnassus in the fourth quarter, we're very well-positioned in an area that's growing at double-digit rates organically. Across our wealth management area, we continue to deliver a valuable combination of positive organic growth and long-duration assets and earnings. And then finally, with the strong start to the year for value equities, about 1,000 basis points of outperformance versus growth, we also expect to see strong demand there as well, which bodes well for both our U.S. and global equity strategies.

And of course, Dan, really, to your question, the reason we're so focused on flows and continuing to enhance our business mix is the impact on long-term earnings growth. And I'll give you just one example about how our flows are translating into future growth. In total, we had about $30 billion of inflows across liquid alternatives and private markets in 2021. Collectively, these businesses make up about 1/4 of our AUM, but they're about 1/3 of our EBITDA. So you're seeing that accretive earnings impact from those flows over time. Importantly, these are also strategies that have some really attractive characteristics. They tend to be higher management fee. They tend to have longer duration lockups, and they have the opportunity to generate substantial performance fees. So when these flows come in, we're in a position not just to benefit in year 1, but really over the long term. So to sum up, I think we're really confident in the strategic path that we're on. We're going to continue to push our business mix more and more toward growth. And we're pleased to see the improving underlying flow trends, and we remain focused on making that continue.

Operator

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

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

Just wanted to circle back on alternatives. Increasingly, a larger part of your business overall at nearly now 30% of AUMs, split evenly between [illiquids] and liquids. In terms of the distribution trend on that, obviously, as you know, traditional managers are increasingly bulking up in the space via acquisition and using their distribution clout within the traditional channel, given the higher demand for alternative. And of course, alternative managers are also ramping up their retail distribution efforts. How do you feel you're positioned in that area on the retail distribution of alternatives? And are you making more investments in that? And as you look to make future investments in new affiliates, what might be particularly attractive to even advance that? And maybe, I guess I'm thinking of private credit, your sort of desire to get even larger in that.

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

Yes. Thanks, Brian. Thanks for your question. I'm going to have Tom start here, but maybe with one caveat. I'll say that this relates back to a prior question, which is one of the benefits of AMG is our partnership solution for independent firms allows these independent firms to continue to operate in that way, but then we bring resources and services to bear. And we've done that for such a long time now. I think it stands on its own, both when we are looking at new investments, but also with existing affiliates who are very much trying to access this new marketplace and would like assistance. It's very much a strategic differentiator for AMG today. So maybe, Tom, you can start, and I'll finish.

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

Great. Thanks for the question, Brian. So maybe going to distribution overall, and then I'll focus in on the retail alternative opportunity. But really, Jay said it right. It's about the combination of what the Affiliates do great today, and then delivering the AMG definition of scale to those Affiliates in the distribution landscape. And really, distribution is one of the most impactful things that we can do on behalf of our Affiliates. We've been very focused over the course of the past several years on optimizing the impact of our distribution resources. And we're seeing the results, both in our flows as well as in our conversations with both existing Affiliates, and importantly, also with new prospects. So to give you an overall flavor for our distribution, today, we have nearly 50 client-facing, individuals who support the more than 500 client-facing people at our Affiliate businesses.

We've helped them to raise more than $110 billion in our global institutional platform. And we've also built a $45 billion U.S. wealth platform, which offers SMAs, '40 Act funds and private fund vehicles on behalf of our Affiliates. On the institutional side, the way to think about it is we really act as a magnifier for our Affiliates. We allow them to leverage our strategically positioned distribution resources. We help them create scale and efficiency. And we really enable them to maximize their global reach. We've added resources there specifically focused on private markets, and alternatives more broadly. And we continue to evaluate opportunities to add talent given the efficacy that we're seeing there.

On the U.S. wealth side, we have a vertically integrated one-stop shop offering. It really enables our Affiliates to tap into this market in an efficient and scalable way. And we can help them with everything from identifying client demand trends, to building the right fund wrapper, to covering home offices, to the wholesalers in the field interacting with FAs and RIAs on behalf of Affiliates. So focusing on the retail alternative opportunities specifically, this is the single largest growth area for alternatives in the world over the next decade. The combination of the size of that market and the gap between current allocations and where most institutions are today creates a significant tailwind.

And we expect many flows to follow. Our Affiliates are already participating in this today, as Jay referenced, and they're ramping up for the future. Pantheon, EIG, Baring Asia and Comvest are all tapping into the wealth market in different ways, both internally as well as in partnership with AMG, as are a number of our other Affiliates. And Affiliate prospects see the opportunity and are actively looking for ways and looking for a partner to access the wealth market. But it's a complicated landscape. It's tough to navigate. It really requires a long-term commitment to that client channel. It requires significant resources and a comprehensive approach. And AMG brings an excellent solution to the table to partner with existing and new Affiliates.

We really have a 3-pronged combination of: one, AMG funds covering the private wealth channel at the home office level and in the field; a unique strategic partnership with iCapital that enables further connectivity; and then the ability to bring to the market our Affiliate partners who offer an outstanding independent partner-owned solution with differentiated and in-demand products and that proven track record of delivering excellent results. So when you put all those things together, we have Affiliates who are forging ahead into wealth. We have a very compelling offering on the distribution side to help accelerate what they're doing. And it's attractive not only to our existing Affiliates, but also as we're out speaking to potential new Affiliates.

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

Yes. And I'll just maybe summarize further. We agree that the democratization of private markets into the wealth retail channel is a significant opportunity for everyone. We think it's a significant opportunity for our Affiliates because they're well-placed given the high-quality and differentiated nature of their businesses. And we do have plans in 2022 to expand on what we've already done in private markets. We've been successful there, bringing a number of Affiliates into the channel including Comvest, Baring Asia, and Abacus, just to name several that Tom named, in addition to introducing new products at Pantheon, which we have plans to do in 2022. But there's also a corollary to our liquid alternatives managers which haven't gotten as much airtime given how much people are talking about private markets.

We have $120 billion of private markets AUM. We have $70 billion of liquid alternatives AUM. And we do think that there's an opportunity as well to continue to bring these uncorrelated, less correlated return streams during this period of heightened market volatility and increased inflation. We think those products will be right for wealth as well. And so we do have a plan in 2022 there. And then the last thing is, across all of our distribution, including our institutional, we are just seeing a pickup in activity generally and interest in liquid and illiquid alternatives. So with our enhanced capabilities in both institutional and U.S. wealth, we enter 2022 with a strategic plan to further capitalize on the democratization of alternatives.

Operator

Our next question comes from the line of Patrick Davitt with Autonomous Research.

Patrick Davitt - *Autonomous Research LLP - Partner, United States Asset Managers*

I think in the past, you've suggested that the new affiliate deal pipeline can freeze and extend when we see periods of volatility. So curious if you could give an update on any early shifts there. And is there any reason to think maybe this period of volatility could be different than what you've experienced in the past? .

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

Yes. Thanks, Patrick. Good question. You're right, we have said that. Look, we're only 5% off highs. I know there's a lot of talk about what's going to happen in the future. So I do think that [potentially] (corrected by company after the call) there may be a different environment. But for the one that we're in today, it hasn't disrupted our pipeline. If anything, it might have accelerated it because these pullbacks remind everyone that time is of the essence.

But I think you're right. There are periods where the environment can be more extreme. We tend to do well in those environments. I mean, obviously, during the period, there's a pause. But coming out of those periods, I think we've demonstrated over 3 decades that those are some of the best times to invest. I think we're heads down focused on prosecuting through what we have today, feeling good about the types of businesses along the strategic objectives that we described. And if we do see a major pullback or a real major shift, I think we'll be ready with our capital and our resources and our prospecting to capitalize on that environment.

Operator

Ladies and gentlemen, this concludes our time allowed for questions. 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 again for joining us this morning. AMG had a strong finish to 2021. The earnings power of our business has increased considerably and we remain focused on the significant opportunities ahead of us. I hope everyone remains safe and healthy. And we look forward to speaking with you next quarter. Thank you.

Operator

Thank you. This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation.
