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AMG - Q1 2018 Affiliated Managers Group Inc Earnings Call

EVENT DATE/TIME: APRIL 30, 2018 / 12:30PM GMT

OVERVIEW:

Co. reported economic net income of $215.2m, GAAP EPS of $2.77 and economic EPS of $3.92.

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PRESENTATION

Operator

Greetings, and welcome to the AMG First Quarter of 2018 Earnings Conference Call. (Operator Instructions) As a reminder, this conference is being recorded.

I would now like to turn the conference over to your host, Ms. Selene Oh, Vice President, Investor Relations for AMG. Thank you. You may begin.

Selene Oh

Thank you for joining AMG to discuss the results for the first quarter of 2018.

In this conference call, certain matters discussed will constitute forward-looking statements. Actual results could differ materially from those projected due to a number of factors, including, but not limited to, those referenced in the Company's Form 10-K and other filings we make with the SEC from time to time. We assume no obligation to update any forward-looking statements made during the call.

AMG will provide on the Investor Relations section of its website, at www.AMG.com, a replay of the call and a copy of our announcement of our results for the quarter, as well as a reconciliation of any non-GAAP financial measures to the most directly comparable GAAP financial measures, including a reconciliation of any estimates of the company's Economic earnings per share for future periods that are announced on this call.

With us on the line to discuss the company's results for the quarter are Sean Healey, Chairman and Chief Executive Officer; Nate Dalton, President and Chief Operating Officer; and Jay Horgen, Chief Financial Officer.

With that, I'll turn the call over to Sean Healey.

Sean M. Healey - *Affiliated Managers Group, Inc. - CEO & Chairman*

Thanks, Selene, and good morning everyone. AMG had a strong start to 2018, with year-over-year growth of 22% in Economic earnings per share. Our results reflect the strength of our strategic position and our Affiliates' track records of alpha generation. Looking ahead, with multiple avenues of growth created by the scale and breadth of our business, including a strong pipeline of new Affiliate investments, we are confident in our prospect for significant additional earnings growth ahead.

During the quarter, our Affiliates' alternative products continued to generate strong positive net client cash flows as clients expand allocations to the highest-quality uncorrelated return streams. These inflows were offset by net equity outflows reflecting client risk aversion amidst market volatility, including two large emerging market equity rebalancings.

As Nate will discuss, our Affiliates generated very strong performance across a range of global equity strategies during the quarter, building on their excellent long-term track records, and we continue to see substantial opportunities for organic growth across our alpha-oriented product set. With outstanding high conviction active equity products alongside a wide array of uncorrelated alternatives, AMG is positioned to grow in rising equity market environments while also producing stable and resilient earnings in periods of market dislocation.

As global clients increasingly concentrate their alpha-oriented relationships with the more limited number of managers, the breadth and quality of our performance-oriented product range continues to be a clear competitive advantage. AMG's global distribution platform offers investors access to a broad array of best-in-class, performance-oriented boutique firms, with the scale, resources, and risk management of a global asset management partner.

As we continue to build strategic cross-product and cross-Affiliate relationships with large clients and intermediaries, we see increasing opportunities to gain market share and leverage our scale on our Affiliates' behalf in markets around the world. Later this year, we will open an office in Japan, where we have a growing array of relationships, including mandates that have been won, and are in the process of funding, with some of the largest and most important clients in Japan. As these institutions expand allocations to both global equities and alternatives, we see tremendous secular growth opportunities in this very large market.

Turning to new investments, we have a very strong and growing pipeline of prospective Affiliates, as we increasingly realize the benefits of the relationships we have built with outstanding independent firms across two decades. Given AMG's unparalleled competitive position, including our track record as the partner of choice to many of the world's most highly regarded firms, we have a unique opportunity to generate meaningful earnings accretion through investments in additional outstanding Affiliates.

And, given the scale of our recurring free cash flow generation, we are able to execute our growth strategy while also consistently returning capital to shareholders, with a cash dividend this quarter which will be 50% higher than last year's level, along with ongoing and increasing share repurchases as our earnings grow.

Looking ahead, we are very confident in our ability to continue to enhance the scale, diversity and earnings power of our business and generate outstanding long-term shareholder value.

With that, I'll turn it to Nate to discuss our Affiliates result in more detail.

Nathaniel Dalton - *Affiliated Managers Group, Inc. - President & COO*

Thanks, and good morning everyone. As Sean said, in the first quarter, our Affiliates produced excellent investment returns across a broad range of strategies. As we all know, while the year started with the equity markets generally moving upward in January, that trend broke down in February and March as volatility increased as did dispersion across and within those markets. In this environment, the best active managers were able to outperform, and many of our Affiliates generated meaningful alpha.

I'll cover performance in more detail in a moment, but first, let me provide some context for our flow profile for the quarter and look ahead to what we expect for the rest of the year. In terms of the quarter, there were several underlying themes. Consistent with trends for some time now, we continue to see very good demand for a large number of our Alternative products across our distribution channels, as well as very consistent solid growth within our multi-asset product sets.

In the first quarter, however, these positives were offset by continued weakness within U.S. equities, consistent with industry trends, and by global and emerging market equities, where our institutional business was impacted by two large rebalances as clients took gains from accounts that had significantly appreciated. Conversely, our retail channels saw good continued flows in both global and emerging markets equities.

Looking ahead, we are very optimistic about the potential for strong organic growth in 2018, and the longer-term opportunity we are executing against.

From a short-term standpoint, performance is good, and there are some very large pieces of institutional business in the pipeline. Here, I will observe that some of these large mandates are quite complex and are taking a bit longer to close than we initially anticipated. Outside of the institutional pipeline, we see continued strong momentum within our retail channels, with good contributions across all of our key product categories. In addition, we continue to have a strong and expanding fundraising pipeline for our illiquid strategies, including private equity, infrastructure, real assets, credit and co-investment products.

Getting beyond the short-term dynamics, we feel quite good about how our differentiated strategy is working. Our focused Affiliates are continuing to perform well, and they are expanding their product capabilities into new areas where they can add significant value, so product development is working well.

In addition, we and our Affiliates continue to make good progress (including with some of these newer product capabilities) at building and diversifying relationships with many of the largest pools of capital, including both clients and intermediaries.

Now, returning to a discussion of the first quarter and starting with our alternative strategies, which account for 40% of our business by assets.

Within private equity and real assets, our Affiliates, including Baring Asia, EIG, and Pantheon, continued their strong long-term track record across their platform in categories such as global and regional private equity, infrastructure (including energy), co-investments, credit, real assets and real estate. Each of these Affiliates continues to execute on their growth initiatives across their business and the increased breadth of these franchises (both flagship strategies and scalable new product and asset class extensions) has created an enduring organic growth opportunity. We are also working closely with these firms to extend their distribution reach across new geographies and client types, both institutional and retail. We believe these businesses will make a substantial contribution to what is an enhanced growth profile for AMG. In addition, we believe the investments we're making in distribution for these illiquid strategies, not only creates leverage for other Affiliates extending into illiquid assets, but also will make us a more attractive partner to additional Affiliates with similar strategies.

Turning to fixed income and equity-relative value, most major indices were slightly positive for the quarter, as relative value strategies were able to add value through security selection on both the long and short sides. The HFRI Relative Value Index posted a 0.3% return, and the HFRI Equity Hedge Index returned 0.6%. The HFRI Activist Index was an outlier with a loss of -2%. In terms of our Affiliates, performance in the category was good, as flagship products at Capula, BlueMountain, and PFM all posted gains and outperformed benchmarks in the quarter. ValueAct in particular, had a very strong quarter, generating positive returns at a time when both its peer group and benchmark were negative.

Within our multi-strategy and other category, our primary index, the HFRI Fund Weighted Composite returned 0.1% for the quarter. Against that backdrop, our performance in the category was mixed. While AQR's Style Premia Fund and Absolute Return Fund outperformed in the quarter, many of our other significant products in the category underperformed as many risk asset betas declined, but all of these strategies continued to maintain strong, longer-term track records.

In our systematic diversified category, industry returns were challenged in the quarter with the SocGen Trend Index falling by -3.9%. After capitalizing on strong upward equity market trend signals in January, February's increased volatility negated the fast start for most products. While our Affiliates have not been immune to the headwinds of this market environment and absolute returns were negative, all of our significant products in the category outperformed the index in the first quarter.

Now turning to flows in our alternatives category. We had a very good quarter of organic growth across both institutional and retail clients. We recorded net inflows of $5.6 billion, behind solid activity across our liquid strategies and additional fundings in the illiquid space.

Looking at the quarter on a sub-category basis, consistent with recent trends, we continue to see good flows in multi-strategy as well as a return to positive net flows in fixed income and equity relative value. Systematic diversified continued to be in net redemptions, but that flow profile has continued to improve not only from reduced redemptions, but through a pickup in sales activity as well. Finally, we also had another solid quarter in our private equity and more illiquid product set, as we had interim fund closing and separate account wins across a broad array of strategies.

Looking ahead, we see very good momentum in both our liquid and illiquid pipeline and expect outstanding continued growth across our product set.

Turning next to our global equities category, which accounts for approximately 35% of our business by assets. As I said earlier, while January started off very positively, increased investor concerns about the macro and geopolitical environments led to heightened volatility for global markets in February and March, resulting in the MSCI World Index ending down -1.2% for the quarter. Against that backdrop, our Affiliates generated strong relative returns in the quarter with flagship strategies at Tweedy, Brown, AQR, Harding Loevner, Artemis and TimesSquare outperforming their benchmarks while Veritas underperformed in the quarter but continues to maintain very strong returns over longer time periods.

Emerging markets outperformed nearly all broad market indices with the MSCI Emerging Markets Index ending up 1.5% for the quarter. Among our Affiliates, AQR and Harding Loevner outperformed the index while Genesis was roughly in-line and Trilogy underperformed the index. Each of these firms maintains strong long-term performance track records.

Moving to global equity flows, we had net outflows of $4.8 billion. On one hand, we saw very good sales activity levels in overall net flows within our retail and high-net worth channels as we participate in a broad-based trend in which retail investors are shifting away from home country bias. On the other hand, institutional flows are disappointing in the quarter as we had below trend sales activity given heightened risk aversion and a slowdown in pipeline conversion.

In terms of net flows for the quarter, the biggest impact was significant rebalancing activity in the two very large emerging markets account that I mentioned earlier. I would note that in each case, the client maintains a significant funding level with the Affiliate, and each of the underlying products has performed well.

Looking ahead, we continue to be excited about the retail opportunity set and see the institutional pipeline conversion rate significantly improving in coming quarters -- and we remain well positioned with flagship products from AQR, Artemis, Harding Loevner, Veritas and Tweedy, Brown, continuing their success and supplemented by a number of newer products and strategies gaining momentum or coming online.

Turning next to U.S. equities, which accounts for 13% of our business by assets, markets ended the quarter slightly negative after their strong January start, with small caps outperforming large caps and growth outperforming value by a significant margin. For the quarter, the S&P 500 lost -0.8%, while the Russell 2000 Index fell -0.1%.

We had very good relative performance at a number of small cap strategies, an area where many of our Affiliates, including TimesSquare, Frontier and River Road outperformed across their flagship products. Performance across our larger capitalization products was more mixed as Yacktman and Frontier underperformed while TimesSquare and AQR outperformed in the quarter.

Within U.S. equities, we saw $3 billion in net outflows as institutional search activity and retail demand for actively managed U.S. strategies remains relatively muted across the industry. We expect this dynamic to continue, but do see pockets of demand and sales opportunities as a number of our Affiliates are in conversations for replacement mandates and trends in redemption activity improve.

Finally, moving to the multi-asset and other category, which accounts for 12% of our business by assets and encompasses multi-asset and balanced mandates at our wealth management Affiliates as well as a number of specialty fixed income and multi-asset products. We had another good quarter producing net inflows of $325 million as we continue to see strong sales activity from a number of in demand tax-oriented and systematic fixed income products coming online. Performance for most of the products in this category remains good, and the customized portfolios of our wealth management Affiliates, broadly speaking, continue to perform well across their ultra-high net worth client bases.

Looking ahead, AMG is very well positioned for meaningful long-term growth across market environments. Through our unique business model, we are able to offer the focused excellence of alpha-oriented managers alongside the scope and scale of a global asset manager, and our partnership approach and entrepreneurial culture has enabled us to grow into one of the largest and most diverse providers of alpha-oriented strategies in the world. Together with our Affiliates, we continue to strategically evolve our product mix to meet the needs of clients and intermediaries for the alpha-portions of their portfolios as well as expand our distribution capabilities in order to deliver these products on a global basis. As Sean mentioned, the progress we are making in Japan is a good example of these evolutions. The products that are proving most attractive in Japan are, in many cases, products our Affiliates were not offering 5 years ago, and our ability to invest alongside our Affiliates in product development and expansion, combined with our ability to invest together in packaging and distribution resources is critical.

We believe there are significant opportunities to bring our Affiliates' products to new clients and new markets while continuing to increase our market position within existing markets and specifically with pools of capital we are just beginning to work with. As we execute on this, we further enhance our position as the partner of choice to the best boutiques in the world and the virtuous circle we have talked about before continues.

With that, let me turn it over to Jay to discuss our financials.

Jay C. Horgen - *Affiliated Managers Group, Inc. - CFO, Treasurer & Principal Accounting Officer*

Thank you, Nate. As Sean discussed, our first quarter results reflect strong year-over-year growth across our key performance metrics, including 22% growth in Economic earnings per share. Given the strength and diversity of our Affiliates, together with the substantial cash generated by our business, we continue to produce stable and growing earnings across market environments.

As you saw in the release, we reported Economic earnings per share of $3.92 for the first quarter, which included net performance fees of $0.40. On a GAAP basis, we reported earnings per share of $2.77.

Turning to our performance metrics. For the first quarter, Aggregate Fees, which was previously referred to as Aggregate Revenue, grew 21% to $1.6 billion from a year ago, driven by positive markets, organic growth in alternatives and a higher level of performance fees. The ratio of Aggregate Fees to average assets under management increased year-over-year from 73 basis points to 79 basis points, reflecting an increase in performance fees.

Adjusted EBITDA grew 18% to $286.5 million from a year ago, reflecting our ownership mix between consolidated and equity method Affiliates. Economic net income grew 18% to $215.2 million from a year ago, while Economic earnings per share grew 22% to $3.92, reflecting a lower year-over-year share count due to repurchase activity.

Turning to more specific modeling items. For the first quarter, the ratio of Adjusted EBITDA to average assets under management was 13.6 basis points or 12.2 basis points excluding performance fees.

Looking ahead, we expect Adjusted EBITDA to average assets under management to be approximately 12.1 basis points in the second quarter, reflecting a performance fee contribution between $0.05 and $0.15 per share.

Our share of interest expense was $21.6 million for the first quarter. In the second quarter, we expect our share of interest expense to be approximately $21 million.

Our share of reported amortization and impairments was $47.6 million for the first quarter, including $30 million from Affiliates accounted for under the "equity method". Going forward, we expect our share of reported amortization to average approximately $41 million per quarter for the rest of the year.

Turning to taxes. With regard to our tax rate in the first quarter, our effective GAAP tax rate was 28.4%, and our cash tax rate was 22.3%, as we realized performance fees from Affiliates that report on a quarter lag and those performance fees were taxed at the higher 2017 U.S. tax rate of 35% compared to 21%.

Given the impact of the higher effective tax rate in the first quarter, we now expect the full year GAAP tax rate to be approximately 26% and the cash tax rate to be approximately 21%.

Intangible-related deferred taxes were $13.2 million in the first quarter, and in the second quarter, we expect intangible-related deferred taxes to be $12 million.

Other economic items were $1.4 million for the quarter. For modeling purposes, we expect other economic items to be approximately $2 million per quarter.

Our adjusted weighted average share count for the first quarter was 54.8 million, and we expected it to be approximately 54.4 million for the second quarter, reflecting continued repurchases. In addition, given the impact of the first quarter repurchases, we now expect our weighted average share count for the full year to be 54.2 million.

Turning to our balance sheet. In the first quarter, we paid a $0.30 per share dividend, which was an increase of 50% year-over-year, and we repurchased $151 million in shares in the quarter. In the second quarter, we expect repurchases of approximately $150 million, and looking ahead, given our scale, we anticipate continued share repurchases even as we execute New Investments.

Finally, we refinanced our $385 million term loan in the quarter to lower our cost of capital and extend its maturity. Looking ahead, with run rate EBITDA of approximately $1.2 billion and given the significant scale of our business, we are confident in our ability to continue to generate meaningful earnings growth through accretive New Investments while also consistently returning capital to shareholders.

Now we'll be happy to answer your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Chris Shutler with William Blair.

Christopher Charles Shutler - *William Blair & Company L.L.C., Research Division - Research Analyst*

Maybe just on the deal pipeline. Sean, you sounded a little bit more positive there, I'd say. Is that a fair read, thinking out over the next several quarters? And how should we be thinking about asset classes, geographies, and scale of potential investments?

Sean M. Healey - *Affiliated Managers Group, Inc. - CEO & Chairman*

Sure. The short answer is yes. We are seeing a definite increase in New Investment activity. I would say it's broad, by firm type and geography. And while some opportunities are in auction settings, most have come from the relationships we've built over time, and in these situations -- we know the firms well, andthe transactions occur in a negotiated form, really custom-tailored to the firm's circumstances. --So, we feel very good about the pipeline. I would say, as always, the pacing of transactions, especially negotiated transactions, is hard to gauge. But we definitely feel that we're entering a period of elevated activity. And I would say, finally, we remain highly selective, of course, but also committed to continuing to repurchase our stock, especially at current valuation levels.

Operator

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

William R Katz - *Citigroup Inc, Research Division - MD*

So maybe one for Nate. Nate, you called out a couple of emerging markets rebalances. I was wondering -- it's a two-part question. Could you sort of size that? And then you used some very strong descriptive language to talk about the pipelines looking into the second half of this year, could you give us a sense of how big that pipeline might be today versus where we were 3 or 6 months ago?

Nathaniel Dalton - *Affiliated Managers Group, Inc. - President & COO*

Sure. So let me take those in order. On the two emerging markets rebalances that we touched on in the prepared remarks. Let me just highlight a couple of things here -- two different Affiliates, in the institutional channel, and these were both very long-tenured investments that had significantly appreciated. Performance was good, and partial redemptions/rebalances is what happened. Each of them was roughly in the $1.5 billion size range. Just to size them, that's roughly where they were. In terms of the pipeline, the pipeline has really continued to improve, I would say it significantly improved. Some of it is, and I touched on this a little bit in the prepared remarks as well, some of these very large mandates that are quite complex are, just honestly, taking a little longer to close. But even beyond that, the pipeline is really building, as we said -- it's coming from alternatives (liquids and illiquids) as well as in global equities. Global, meaning global developed as well as emerging. So, yes, the pipeline is really building well.

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*

Thanks for the realizations disclosure. That's very helpful. Going back to a couple of maybe different ones in the pipeline for global equities. Maybe if you can describe, Nate, your comment on the complexity of that and the timing of that? And it looks like, I thought you said -- and I may have written this down wrong, but I thought you said the environment was a little -- the backdrop was a little bit slower for global equity. It looked like the actual sales -- gross number looked actually pretty good. So just trying to get a better flavor of that global equity category going forward? And whether Japan is also part of that or what's the nature of the Japan pipeline?

Nathaniel Dalton - *Affiliated Managers Group, Inc. - President & COO*

Yes. A bunch of questions, let me try to make sure I get to all of them. So on global equity growth in the quarter, the gross sales number was good. What I was speaking to there was relative to our expectations given what's in the pipeline, right? So some things did slow-down in the quarter, and again, some of that might have been risk aversion, as we said. But some of it is certainly what I've described as this complexity point, and it's manifesting itself in a couple of different ways. But I would put them all under in the category of -- there are conversations that are quite large, some of them are multi-strategy, and so it's making sure those pieces fit together. Some of them are multi-geography, so it's making sure all of the regulatory and legal structure all fits together. And so there are things building in the pipeline that are quite large and just taking a bit longer to come in. To the Japan question, I think it's the product set that we're seeing lots of traction with, and is moving us forward as in the execution phase. We have always talked about having to understand -- yes, we have a large number of marketplaces that we're looking at. We have talked about the way we think about them top down in terms of opportunities for focused boutiques and evolutions and then bottoms up, when we match our product set against them and the traction. We also talk about the pull, where we're being pulled into markets. So we've been having some, really increased success in Japan. Some of which is starting to come through, and some of that is a little bit public, but some of it's starting to come through, and a lot of it is also building. And the product set that we are working with there is really reflective of our product set more broadly, it is coming through in the global equities products set as well as very significantly in alternatives, liquid and certainly, illiquid as well.

Operator

Our next question comes from the line of Craig Siegenthaler with Crédit Suisse.

Craig William Siegenthaler - *Crédit Suisse AG, Research Division - MD*

So my question is on active equities, and maybe it's more of a Nate question. But many of your peers have started to see an improvement in their active equity flows, and it's not necessarily positive but really just less debt. I know we didn't see that in your results this quarter, but the quarter is only 90 days. So what is your internal view across your 40 affiliates on if we could see better active equity flows really given the better performance over the last year versus benchmark?

Nathaniel Dalton - *Affiliated Managers Group, Inc. - President & COO*

Yes. So first, I think you hit on just the key point there at the end, which is investment performance. And as we described in our prepared remarks, the performance really across the Affiliates' strategies, if you look at the placement against benchmarks and peers, the performance -- again, it's not every single product and all that -- but the performance in the main strategies was really good this quarter. One dimension to it is, as you say, it's just a quarter. One dimension to it is also that we may be going through -- and we've talked about this for a little while -- we may be going through a bit of a regime change here from a monetary policy perspective, which may be making it an environment where active managers can really outperform. I think those things are certainly part of it. When you look at our flow profile, one way to look at this -- and again, it's just a quarter. But one way to look at this would be to look at the retail flow profile, which was pretty good. And then on the institutional side, I think again, as I think the really good progress we're making was impacted by really the two dynamics we mentioned, without which the net number would have been good. I mean, the response to an earlier question, the global equity flows from a growth sales standpoint were not actually that bad, notwithstanding the fact that we see things on the large end building up. And so this quarter, I think, that number was really just impacted by the two things we highlighted.

Sean M. Healey - *Affiliated Managers Group, Inc. - CEO & Chairman*

Yes. I would add, Craig, just in a different way. Distinguishing us from our peers, we have a much bigger position in alternatives. Deliberately, we've increased over the past 5 years our asset and earnings contribution from alternatives from 25% to 40%. I would say, we, collectively, and certainly some individual Affiliates, notably AQR, are real leaders in retail alternatives. And if you look at the breadth and depth of our alternative product sets, we are at the very top of the industry, and we are seeing the benefit of that in some of these large, strategic distribution conversations that we have referenced. So I think prospectively, it will be increasingly important to focus on alternatives as a major category and not just active equities where obviously we have a strong position, especially in global.

Operator

Our next question comes from the line of Robert Lee with KBW.

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

Great. can we talk a little bit about global distribution? I guess, on the things -- there's 2 parts to this. Number one, as you've continued to expand your global distribution, I guess, it's been almost a decade now. Are you starting to see -- number one, or maybe keep track of clients that -- to what extent have they actually been expanding the number of Affiliates that they do business with through your global distribution? I mean, maybe someone started with 1 and now they're up to 3? And then maybe Nate, this goes to some of the more complex, multi-asset strategies. Are you guys at a point where you're actually seeing or able to put together mandates that may span multiple Affiliates with one big mandate?

Nathaniel Dalton - *Affiliated Managers Group, Inc. - President & COO*

Yes, thanks. Yes, it's actually been over a decade now. So the answer to the first part of the question is absolutely, right? And that's always been part of the way we thought about our global distribution, which is, again, working with our Affiliates but have their own excellent distribution themselves and building things that we made alongside them. And we talk about it, and I think have talked about it on prior calls, to building these exponential growth curves in, where we go to a geography and begin building. And then on the back of that, getting the first mandates and then getting diversity into the mandates and both within a single Affiliate that has multi-product capabilities, as well as across Affiliates. So absolutely, that's happening, and it's happening all over. But while we say, "Hey, we've been doing it for more than the decade," we really did build it in kind of step function, geography by geography. The first couple of years, in each geography, are really quite modest in terms of flows generally. I think Japan is an exception given the traction we've already got there. But absolutely, it's happening, and we're seeing it happen literally everywhere we're working. Some of that is with intermediaries. Some of those intermediaries are themselves global, and so you're getting that leverage not just within the geography, but across geographies as you build relationships with multi-geography intermediaries. So on the first part of the question, absolutely. On the second, it's a really interesting topic, and I think a source of potential significant future growth. Although to date, it's much more of a coordination role rather than us really combining multi-Affiliate capabilities into a single product that we then deliver. It is something we have done in very small ways, as we learn and grow with that capability, but it's not something that we're really doing at scale yet. It is definitely something that could be done.

Sean M. Healey - *Affiliated Managers Group, Inc. - CEO & Chairman*

And I would just add that as we've discussed, and I think our peers mentioned this as well, it's another aspect where scale and breadth of product is becoming increasingly important in the industry, and it plays very much to our strength.

Operator

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

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

I guess, Nate, just another one on institutional and just looking at redemption trends. I get this quarter the couple of mandates you called out, and obviously, the redemption trends are also difficult to predict. But we're looking at a couple -- this is the third quarter in a row of elevated redemptions. And you mentioned risk aversion is something that clients are talking about. So I guess, just looking ahead, how we should think about redemptions, caveated with the pipeline and all the good things you've been talking about?

Nathaniel Dalton - *Affiliated Managers Group, Inc. - President & COO*

Yes, so you're right. Institutional redemptions did improve quarter-over-quarter, even including the the rebalances that I described. And if you normalize for them, I actually think it was -- I think it was actually kind of a trend, quarterly rebalances. I'll think about that a little more. And let me caveat it with one other thing, which is, we obviously have much more visibility on the gross sales side, than we do on the rebalances or redemption side. So yes. But with those caveats, again, I'd come back to the performance point again, which is performance was really good. And so that stands to reason that, that would improve the redemption trends over time. And so -- maybe even in the short run to the extent there's something that's close. So I would go back to that and say, "Look, I think the redemption trends, except for those two rebalances, I think were actually not that bad." And then I think with the really good performance, I would say that it should stand the reason that it would improve.

Operator

Our next question comes from the line of Michael Carrier with Bank of America Merrill Lynch.

Michael Roger Carrier - *BofA Merrill Lynch, Research Division - Director*

All right. Jay, I know it's early in the year, but just given some of the volatility that we saw in the quarter, when you kind of look across all the Affiliates performance, what drives the performance fees, are we still in the average kind of environment? Meaning, nothing really kind of got taken down or there's really knocking the cover off the balls, relative to where we're typically thinking of the expectations for an average year.

Jay C. Horgen - *Affiliated Managers Group, Inc. - CFO, Treasurer & Principal Accounting Officer*

Yes. Thanks, Michael. So let me get to performance fees. I'll just give you one other element first, which is just the AUM, and sort of tracking that since our last call. And you're right, it's been a volatile quarter and year-to-date, period. So we started the year at $836 million. When we gave an update on January 29, which was the time of our last call, we were about $870 million. So since that call, we finished the quarter at $831 million, as you can see in the table, which was a decline of about 5% in AUM balances or 1% decrease from the beginning of the year. So it wasn't much from the beginning of the year, but it was from the time we gave our last call. Looking into this quarter, though, we're already up about 0.5% as of Friday so remarking it up about 0.5% is right. And then to your performance fee question, and I'll hit capital as well, those are the two other main assumptions that go into models that affect Economic earnings per share. And you heard Nate say it, performance in alternative strategies was mixed. In some places, it was -- first of all, our Affiliates' performance is quite good, but the indices themselves were mixed. Some were modestly positive and a few were -- or at least the CTAs was down a bit, about 4%. So it's still early in the year. We had originally thought we'd be in the low to mid-teens, kind of on an average basis for performance fees. We might be slightly below that, kind of 10% to 12%-ish now of percentage of earnings but not much but a little bit lower, mainly because of the CTA segment. And then lastly, on capital. As you heard, both Sean and I say on the call, both of us say, we do anticipate repurchasing throughout the year, even in an environment with New Investments, and $150 million is expected in the second quarter.

Operator

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

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

Jay, just a follow-up, I guess, on your last point around the buybacks. So it looks like you guys pulled back a little bit heavier in the beginning of year versus the kind of the second part of the quarter. And I guess, not to get too specific, but do you guys clearly generally have a lot of free cash flow? Why not step up the buyback given where the valuation of the stock is?

Jay C. Horgen - *Affiliated Managers Group, Inc. - CFO, Treasurer & Principal Accounting Officer*

Well -- just to kind of play all the comments together. We elevated share repurchase in the first quarter. They were averaging middle of the quarter. It just did a little bit throughout the quarter. That $150 million was higher than last year. We still expect to stay at that elevated level in this quarter. As you heard Sean say, we have a good pipeline, a building pipeline and a strong one. So we are mindful of New Investments, but we do expect to do both this year as we look to the second half of the year. Finally, we are mindful of our valuation. As Sean said, we are also interested in buying back our shares at this level. So $150 million is a reasonable level for us. Can it go higher? Yes. Will we consider it? Yes.

Operator

Our next question comes from the line of Chris Shutler with William Blair.

Christopher Charles Shutler - *William Blair & Company L.L.C., Research Division - Research Analyst*

So for Jay, on the realizations, you gave the number in the quarter. Can you give us the realization number for calendar '17, so we can get a better sense of how to think about that? And then global equities have seen, I think, significant outflows, 2 of the last 3 quarters. So are those the same clients, same strategies? Just trying to think about risk from here. How many more assets those clients or strategies may still have?

Nathaniel Dalton - *Affiliated Managers Group, Inc. - President & COO*

Yes. This is Nate. Let me take the second half of that question. So the short answer is no. In terms of the things we called out this quarter on the emerging markets rebalances, the two emerging markets rebalances, there was no relationship to anything in the prior quarter.

Sean M. Healey - *Affiliated Managers Group, Inc. - CEO & Chairman*

And big clients who have ongoing mandates with those firms and with other Affiliates.

Nathaniel Dalton - *Affiliated Managers Group, Inc. - President & COO*

Yes.

Jay C. Horgen - *Affiliated Managers Group, Inc. - CFO, Treasurer & Principal Accounting Officer*

Then on the AUM reporting, just maybe taking a step back because this is new disclosures. It's worth just talking about it a bit. We continue to make incremental improvements in our disclosure. We have over the last several years. We typically try to do that at the beginning of the year just so we can roll it out throughout the year. You do see that we have broken out realizations and distribution net of reinvestments. So we've put all 3 of those in the same line item. I want to make sure that, that's clear. It has been requested by analysts and investors, and I think some of our peers have broken it out separately. So we have pulled that out. This new line item provides transparency into movements that are hardwired as a result of the product features, and they're not client decisions. And that's why we pulled it out. We're not going to do pro forma work on our historical numbers, but it wasn't material to our 2017 numbers. Going forward, we will see a modest amount of realizations and distribution net of reinvestments in the second and third quarter with some seasonality in the fourth quarter.

Operator

Mr. Healey, there are no further questions at this time. I'll turn the floor back to you for any final comments.

Sean M. Healey - *Affiliated Managers Group, Inc. - CEO & Chairman*

Well, thank you again for joining us this morning. We are pleased with our results for the quarter, and we are confident in our ability to continue to create long-term shareholder value. We look forward to speaking with you in July.

Operator

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