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AMG - Q3 2017 Affiliated Managers Group Inc Earnings Call

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OVERVIEW:

Co. reported 3Q17 GAAP EPS of $2.22.

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PRESENTATION

Operator

Greetings, and welcome to the AMG Third Quarter 2017 Earnings Conference Call. (Operator Instructions) As a reminder, this conference is being recorded.

I would now like to turn the call 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 our results for the third quarter of 2017. 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 to 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.

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

Thanks, Selene, and good morning, everyone. AMG reported strong results for the third quarter, including Economic earnings per share of $3.41, representing growth of 12% year-over-year; and record assets under management of $804 billion, a 20% increase over the year-ago quarter.

Our results reflect continued excellent execution across our business, including the ongoing investment outperformance of our Affiliates, positive organic growth from net flows, and the impact of new Affiliate partnerships.

During the quarter, our Affiliates generated positive net client cash flows of $3.1 billion, with strong new business momentum across a broad array of alternative strategies, partially offset by net outflows in equities.

Looking ahead, we see ongoing growth, especially in our alternative and global equity product sets, as global institutional and retail clients increasingly recognize the long-term outperformance of specialist boutique managers and expand their allocations to truly diversifying, value-added products.

As next month marks the 20th anniversary of AMG's IPO, I thought I would take a moment to step back and consider how our business and strategy have evolved over the past two decades. As we all know, in the past 20 years, we've seen multiple market cycles, including several periods of extreme volatility, along with profound changes in financial markets and the asset management industry. Through it all, since AMG's IPO in 1997, global equity markets have roughly doubled. While AMG's market cap and assets under management have both increased by over 20 times.

We have achieved this success through excellent execution, disciplined adherence to our core principles, and partnering with truly outstanding firms which have generated industry-leading investment performance.

Our growth reflects the advantages that the best, focused, boutique firms have in generating alpha, and the degree to which clients continue to recognize and appreciate these advantages along with the very strong alignment which exists when investment managers are true partners and direct equity owners of their firms.

As we built AMG's business over time, we deliberately sought diversification into product areas such as global and emerging market equities, where clients have been increasing allocations in the alpha portions of their portfolios. These products now represent 35% of our assets under management.

We also saw a growing client demand for the less correlated sources of alpha which alternative products can provide, and AMG was one of the first traditional asset management firms to add significant exposure to alternatives, beginning with our investment in AQR in 2004.

Since then, with partnerships with leading firms such as ValueAct, BlueMountain, Pantheon, EIG, Baring Asia, Winton and Capula, AMG has now assembled one of the largest and most diverse alternative businesses in the industry, with over $300 billion across a broad array of liquid and illiquid strategies. These strategies are largely uncorrelated to equity markets and to each other, and our alternative product set, which represents 39% of our overall AUM, enhances the balance and stability of AMG's earnings stream, while also positioning the company ahead of enduring client demand trends. We continue to see strong momentum in this product area across markets and channels around the world, and given our Affiliates' outstanding long-term track records and ability to innovate and develop products to meet clients' evolving needs, we see tremendous opportunity ahead.

As we all know, in the years following the global financial crisis, the growth of passive investing has been a major development in our industry as the market environment created by central bank interventions dramatically accelerated flows into passive products.

While many of these products have not been tested across a full market cycle, the growth of passive investments will no doubt continue. But in any event, there remains an enduring role for value-added active strategies as clients seek the highest-quality alpha-generating products to help meet their obligations and goals, often complementing their beta exposure in what we now call 'barbell' investing.

We believe, and our client dialogues continue to indicate, that there is an enormous opportunity for performance-oriented strategies providing high- -conviction alpha and true diversification, including those offered by our Affiliates across global and emerging market equities and alternatives.

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AMG's track record of organic growth with over $130 billion in net line cash flows into active strategies since the financial crisis, with ongoing sales momentum, is evidence of this enduring client demand for alpha products.

As clients around the world, especially large global institutional clients, increasingly recognize the advantages of specialist boutique firms in managing the alpha portions of their portfolios, there is also a growing trend toward global clients concentrating their manager relationships. While we don't believe that large firms with mediocre active products will succeed over the long term, excellent investment performance won't necessarily be enough for smaller firms without global reach and product breadth.

Through AMG's global distribution capabilities, which complement our Affiliates' marketing efforts, we have come to offer our Affiliates, and ultimately our clients, the advantages of global scale in distribution and compliance, while also providing the excellence and alpha generation of focused and aligned boutiques. This trend toward manager concentration plays well to AMG's strength as a single point of access to the broadest array of boutique alpha-oriented strategies, with the ability to build strategic relationships with large clients and intermediaries. We are already benefiting from this trend, and expect these kinds of relationships to be an increasingly important theme in our growth going forward.

On top of our excellent prospects for ongoing organic growth, AMG's business strategy provides a unique opportunity to generate incremental earnings growth, and product diversification, through accretive investments in new Affiliates. Given our outstanding track record over the past two decades, AMG is the clear partner of choice for boutique firms, traditional and alternative, on a global basis, which seek a permanent strategic partner. We have an extremely attractive secular opportunity to create incremental earnings growth and diversification, and while the pace of new investment activity is inherently based on the dynamics of each prospective new Affiliate, we continue to be very busy over a range of potential transactions, though, as always, we remain disciplined and highly selective.

Finally, as our EBITDA has grown from less than $50 million at our IPO, to over $1.2 billion today, the financial scale and strength of our business is itself, an increasingly important source of shareholder value creation. Our strong capital position, as an A-rated company, along with our substantial free cash flow generation, provides the financial flexibility to not only opportunistically execute new investments but also consistently return capital to shareholders through repurchases and dividends, which will continue to increase over time.

As we look ahead, our business is larger, stronger and more diverse than ever, and the lessons and experience of the past 20 years continue to serve us well. We know that markets will go through difficult periods with sometimes extreme volatility, but a disciplined focus and commitment to the core principles which have guided us since our founding, will ensure continued success.

Our business, active investment management, is ultimately about serving clients well with excellent execution and excellent performance -- and together with our outstanding Affiliates, each with a clear focused investment strategy, a track record of excellence, and directly aligned incentives, we are incredibly optimistic about our ability to execute and grow our business over the next 20 years and beyond.

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

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

Thanks. Good morning, everyone. As Sean said, we had another good quarter of organic growth and our Affiliates continued to extend their excellent investment track records across a broad array of alternative and active equity products.

Before turning to the details, I wanted to review at a high level our flow profile this quarter against the backdrop of the broader industry-specific themes. We continue to be extremely pleased with our product positioning and new product development and, more near term, the fact that we generated another quarter of positive net client cash flows. We also continue to have very good level of activity in terms of won-but-unfunded mandates, finals and RFPs across global equities and alternatives, both liquid and illiquid strategies.

Looking specifically at the shape of the flows in the third quarter, we were clearly impacted by some lumpy flows in both the institutional and sub-advisory retail client segments. We had some significant large wins, especially in the alternatives product category this quarter, but we also

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had some significant institutional mandates flip from the third to the fourth quarter and, in addition, we had a couple of lumpy institutional outflows in the global equity product category.

While it all netted out to a positive $3.1 billion inflows for the third quarter, more importantly, we feel very good about the forward pipeline and opportunity set for the balance of this year and into 2018.

Looking ahead, we continue to see significant ongoing opportunities in both our liquid and illiquid alternative products across both our institutional and retail client types, and we see our global equity flow pattern significantly improving.

As Sean said, there is an enormous opportunity for performance-oriented strategies providing high-conviction alpha and true diversification, strategies offered by our Affiliates across global and emerging market equities and alternatives, and we are increasingly able to leverage our scale to bring these products to sophisticated investors and intermediaries.

Now turning to the details for the quarter. As a reminder, our product categories include: alternatives, global equities (including both developed and emerging markets), U.S. equities, and multi-asset and other strategies. In addition, we will continue to discuss our alternative products at the subcategory level to dimension underlying return and flow dynamics that are hard to see at the aggregate level.

Starting with our alternative strategies, which account for 39% 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 records across their flagship offerings in categories such as global and regional private equity (primaries, secondaries, and co-investment) and infrastructure (including energy). We continue to see each of these Affiliates broadening their product lines as well, adding talent and creating additional complementary yet diversifying growth opportunities in areas such as coinvestments, real assets, real estate, and credit. The combination of these legacy flagship strategies, with scalable product line extensions, are gaining significant traction in the marketplace and we are very encouraged by the organic growth potential. We believe these businesses will make substantial contribution to what is an enhanced growth profile for AMG.

In fixed income and equity-relative value, major indices posted positive returns in the quarter, as indicated by the HFRI Relative Value Index with a 1.3% return, the HFRI Equity Hedge Index with a 3.6% return, and the HFRI Event Driven Activist Index with a 1.2% return.

Our largest product in the category at Affiliates such as AQR, BlueMountain, and Capula had mixed performance in the quarter, but continue to maintain very good long-term track records. ValueAct had a challenging quarter, but remains well ahead of the index year-to-date, although trailing broader equity markets.

I would also note the performance of our Affiliates' equity hedge products was especially good this quarter as a number of products at AQR, PFM, and Systematica produced strong relative and absolute returns.

Within our multi-strategy and other category, indices were positive for the quarter. For example, the HFRI Fund Weighted Composite return of 2.3%. Against that backdrop, most of our Affiliates' key strategies generated strong, absolute and relative returns in the quarter as they benefited from strong market betas across asset classes. Products that perform particularly well include AQR's multi-asset style premia, alternative beta, and risk parity strategies as well as First Quadrant's risk parity and commodity strategies.

In our systematic diversified category, broadly speaking industry returns were flat in the quarter, and the SocGen Trend Index rose by a modest 0.8%, remaining negative for the trailing 1- and 3-year periods. In recent periods, a variety of macro factors have combined to offset what have been steady gains from equities in these diversifying strategies. The processes behind these strategies incorporate a wide array of underlying engines across asset classes, which have proved over the long term to generate alpha, particularly in severe market drawdowns. Our Affiliates' performance was in line with peers this quarter, and while there are some near-term challenges in certain segments of the systematic investment universe, there continues to be significant, broad-based demand for algorithmic investing, and our Affiliates are among the leaders in developing products to meet this demand.

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Turning now to flows in our alternatives category. We had an excellent quarter of organic growth, with $10.3 billion of net inflows, supported by continued momentum across both institutional and retail clients.

Looking at the quarter, on a subcategory basis, consistent with recent trends, we saw good flows in both fixed income and equity relative value and a multi-strategy and other subcategories. While systematic diversified continued to be in net redemptions. We also had a very strong quarter in our private equity and more illiquid product set as we saw significant wins and fund closings. This occurred even as realization activity increased as Affiliates crystallized asset values for certain mature investments in this environment.

Now moving next to our global equities category, which accounts for approximately 35% of our business by assets. It was a strong quarter for global developed markets with the MSCI World Index returning 5%. Our Affiliates generated good results in the quarter as well, with the flagship strategies from AQR, Harding Loevner, TimesSquare, and Trilogy outperforming their benchmarks, while Veritas had a more challenging quarter but maintains a very strong long-term track record.

Emerging market indices also posted strong returns with the benchmark MSCI Emerging Markets Index up 8% in the quarter. Among our Affiliates, the flagship products at AQR and Trilogy outpaced the index, while Genesis and Harding Loevner lagged for the quarter, which is not surprising, given they were underweight in more growth-oriented sectors, which outperformed.

Turning to global equity flows, as I mentioned before, we had a challenging quarter, with $4.6 billion in net outflows, as we experienced a couple of lumpy institutional redemptions at the same time as we had a light gross sales quarter among our institutional clients. In part, this is because several large fundings slipped to the fourth quarter.

In terms of the category more broadly, AMG's largest Affiliates, AQR, Artemis, Harding Loevner, Tweedy, Browne, and Veritas, all continue to maintain excellent long-term track records in their primary products. We see good product development within this group.

In addition, we've been working with a number of our other Affiliates to build out their global investment capabilities, and some of these products are beginning to gain traction as well.

Turning next to U.S. equities, which accounts for 14% of our business by assets. Markets were meaningfully positive, small caps outperformed large caps and growth outperformed value.

Now for the quarter, the S&P 500 returned 4.5%, while the Russell 2000 Index returned 5.7%. Our performance was mixed, but we had stronger absolute and relative performance in a number of smaller cap strategies, an area where several of our Affiliates, including Frontier and SouthernSun, outperformed across their flagship products.

Conversely, given the relative underperformance of value and larger cap, Yacktman's flagship strategy underperformed the broad market benchmarks this quarter but maintains an outstanding long-term track record.

Within U.S. equities, we saw $3.2 billion in net outflows, in-line with industry-wide trends, but while institutional search activity and retail demand remains relatively muted, we do see improvement on the redemption side.

Now while broadly speaking, investors are currently favoring so-called passive exposures for the U.S. equity portions of their portfolios, we believe true, alpha-oriented U.S. equity managers will continue to be able to produce excess return, which in turn will drive client demand.

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.

In the category, we produced net inflows of $580 million, as we again saw solid sales activity and a reduction in institutional redemptions within our specialty fixed income and multi-asset product set.

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Performance for most of the products in this category remains good versus their benchmarks and the customized portfolios where wealth management Affiliates continue to broadly perform well across their ultra high net worth clients.

While the broader investment management landscape faces a number of challenges, we believe that the business we have built is very well positioned. Together with our Affiliates, we are one of the largest providers of alpha-oriented strategies, especially in alternative and global emerging markets equities. This combination of focused excellence by our Affiliates and the scope and scale of a global asset manager provides us with a significant number of opportunities to continue to improve how we, together, meet evolving needs of clients.

And as Sean said, we are making very good progress, and we see tremendous opportunities ahead. But we're still in the early stages of executing in this area, and as we do that, we will continue to both enhance our position as the partner of choice to the best boutiques in the world, and drive significant organic growth across our Affiliate group.

With that, let me turn it to Jay.

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

Thank you, Nate. As Sean discussed, our third quarter results reflect continued growth in the earnings power of our business as we ended the quarter with record assets under management of $804 billion. As you saw in the release, we reported Economic earnings per share of $3.41 for the third quarter, which included net performance fees of $0.05. On a GAAP basis, we reported earnings per share of $2.22.

Turning to our performance metrics. For the third quarter, aggregate revenue, which, as you know, is the sum of our GAAP revenue and our equity method revenue, grew 27% to $1.3 billion from a year ago driven primarily by strong markets and organic growth in alternatives together with a full effect of our 2016 new investments.

The ratio of aggregate revenue to average assets under management increased year-over-year from 60 basis points to 64 basis points, reflecting modestly higher performance fees. Excluding performance fees, we also saw a modest increase in this ratio, as our AUM composition shifted towards a greater contribution from higher fee alternative products.

Adjusted EBITDA grew 17% to $256.3 million from a year ago, reflecting the mix between consolidated and equity method Affiliates. Economic net income grew 16% to $191.3 million from a year ago, reflecting strong growth in adjusted EBITDA, partially offset by a higher cash tax rate in the quarter.

Finally, Economic earnings per share increased 12%, to $3.41 from a year ago, which includes a modest increase in share count. Turning to more specific modeling items for the third quarter. The ratio of adjusted EBITDA to average assets under management was 13 basis points or 12.7 basis points, excluding performance fees.

In the fourth quarter, we expect this ratio to be between 16 and 18 basis points, reflecting a higher contribution from performance fees in the range of $0.70 to $1.20 per share.

Excluding performance fees, we expect this ratio to be approximately 12.8 basis points in the fourth quarter. With regard to our taxes. Our effective GAAP tax rate was 33.8%, and our cash tax rate was 21.7% in the third quarter.

In the fourth quarter, we expect our GAAP tax rate to increase to approximately 34%, and our cash tax rate to increase to approximately 27%, reflecting a higher level of taxable income driven by performance fees. Intangible-related deferred taxes for the third quarter were $22.9 million. In the fourth quarter, we expect this number to decrease to approximately $20.5 million.

Our share reported amortization for the third quarter was $42.2 million, which includes $25.9 million of amortization from Affiliates accounted for under the equity method. For the fourth quarter, we expect our share of amortization to remain at approximately $42 million.

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Our share of interest expense for the third quarter was $21.5 million. In the fourth quarter, we expect our share of interest expense to decrease to approximately $19.5 million, which reflects the retirement of our senior bond in August.

Other economic items for the third quarter were less than $1 million. For modeling purposes, we expect other economic items to be approximately $1 million per quarter. Our adjusted weighted average share count for the quarter was 56.1 million and we expect it to be approximately 55.9 million for the fourth quarter, reflecting additional share repurchases.

Finally, turning to our balance sheet. In the third quarter, we retired our $200 million senior bond, paid a cash dividend of $0.20 per share and repurchased $74 million in shares. In the fourth quarter, we expect additional share repurchases of approximately $100 million.

With record assets under management of $804 billion, together with the increased earnings power of our business of approximately $1.2 billion in run rate EBITDA, we are well positioned to continue to generate substantial shareholder value through the execution of our growth strategy and the consistent return of 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 Craig Siegenthaler with Crédit Suisse.

Craig William Siegenthaler - *Crédit Suisse AG, Research Division - Global Research Product Head for the Asset Management Industry*

I just wanted to start with the private equity fundraising cycle. How much of the fundraising inflow from private equity was in that $10 billion of alternative net flows? And then when we think about the original target, which I think was around $10 billion, how much has already been raised to date?

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

It's Nate here. Just to step back one second, obviously, we had a strong quarter in the private equity and more illiquid product set and while there's not a ton we can say given the rules about fundraising and stuff about specific funds, but relative to the pipeline, the way you describe it. As we discussed last quarter, we have several Affiliates with what we would think of as flagship products now that are in or are entering the market to raise funds and we're beginning, as you indicated, to have closings on those products.

But I think it's important -- as we've also talked about, those firms are also broadening their product lines and they're also increasingly offering customized separate accounts. And so I think the right way to think about it is while those Affiliates are entering this period of significant fundraising, we continue to see the opportunity kind of both extend longer but also the pipeline, sort of broaden and diversify. So while we definitely had a good quarter there. I wouldn't think about it as taking from a defined number because we see that continuing to grow.

One other detail, and we said this also in the prepared remarks, we did have slightly elevated realizations in this past quarter. And so as you think about the net number, that should moderate a bit as we look forward. So I feel good about it, if anything, continuing to be both a larger number and also continue to extend out into the future.

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Craig William Siegenthaler - *Crédit Suisse AG, Research Division - Global Research Product Head for the Asset Management Industry*

Just as my follow-up here. Solutions is still a growing theme in this space. And I wanted to get your appetite, if there's any appetite, for building a centralized solutions effort for either your institutional Affiliates that could be working with insurance companies or even on the retail side that could work with large retail platforms that really leverage the capability of multiple AMG Affiliates, whether it's across vehicle or you're using SMA or even CCAB outside the U.S.?

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

Sure. Well, I would start by saying what we are doing. And our business is mostly institutional, as you know. As we described, and have been discussing over the last year or so, we are very pleased with our position with some of the largest, most sophisticated, institutional clients and the largest, most important intermediaries, who are looking for a breadth of excellent alpha-oriented product, global scale, as they design and develop their own product allocations. So they're not looking for solutions, they're looking for excellent products. And I think, in fact, if we were coming with solutions, we might even, in some ways, be competitive with some of those intermediaries. So we're focused, most, on building those relationships. And as we've said, we think we're very well positioned given the quality and breadth and scale of our business.

Now are there other areas in the market where there are growth, including especially retail and retail outside the U.S.? Absolutely. It's on our list, and we have smaller initiatives to develop those capabilities. But I think the very largest opportunity, and one that you hear around the industry as an increasing theme of concentration of manager relationships, is one that, as I said, plays very well to our strength and we're seeing lots of traction and expect that to be even more important and an even bigger element of our growth. It's not something that we're going to call out each quarter, but we're having very large mandates that we've won, or are in process, that we're looking forward to. And so we feel terrific about that part of our business.

Operator

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

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

Nate, I was wondering if you could comment. You highlighted that there was some lumpiness on the institutional side, for some of the subadvised accounts, and then some of the pipeline slipped into the fourth quarter. Could you dimension those two aspects to sort of get -- or maybe throw in the realization number as well, so we get a sense of what the underlying organic growth trend looks like?

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

Yes. So I think the easiest way to do this is by looking at trends, right? So I think if you look at the flow pattern this past quarter, as compared to the last, where we're running a couple of billion net positive. If you look at this quarter relative to that, I'll kind of guide you through the pieces. So as you said, and as we talked about in our prepared remarks, in the alternative set, we had a very good quarter, both institutional and retail, and also did have some elevated realizations. And then in global, we had both lower gross sales in institutional, although I will say global retail was quite a good quarter. But global institutional, we had those lighter gross sales as things slipped into the fourth quarter. And then we also had those lumpy realizations I talked about. You can kind of normalize those off against each other and get back to that trend plus, a theme that we've been talking about, which is we continue to have this very strong illiquids pipeline that should provide an incremental growth opportunity on top of it. So that's the way I would dimension those pieces.

Operator

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

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

I want to build on that question a little bit and just thinking ahead to the fourth quarter, which is typically -- the last few years, we've seen elevated redemptions. And so, if you could talk about, the dynamics driving some of those redemptions. If you see that kind of persisting into the fourth quarter. Then also, just a little more color on the longer-dated stuff, are we still in the early stages, I guess, of thinking of that building and ramping? Or is it -- is what we saw this quarter kind of a steady state of what you think will be ongoing? So just kind of getting a sense of the trajectory.

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

Got it. So there's a couple embedded in there. So let me make sure I try and get them all. So first, the first answer is no. I don't think any of the lumpy things from this quarter should apply to next quarter beyond the fourth quarter seasonality that you talked about. There is -- to be clear, there is fourth quarter seasonality both in the retail channel as both 401(k)s are maxed and you have capital gains and dividend distributions and people are selling for tax losses and all that kind of stuff. So there is that. And then there's also in the institutional and high net worth space, there's this timing disconnect where you have -- especially people with annual product redemptions coming out before the new subscriptions are coming in the first quarter. So there is that kind of seasonality. All of that is taken into account in the optimism that you hear from us. So the short answers are no, none of the lumpy thing. The outflow should have nothing to do with the fourth quarter. There is that seasonality, but understanding that is all embedded in the optimism that you hear from us for the fourth quarter and beyond. Now on the illiquid pipeline, I would say we're still in the early stages of it. If you think of it, in that kind of cyclical way. So I think we are entering it. We are beginning to have sort of interim closings, and we're beginning to have flagship products with closings and separate account wins and all that kind of stuff starting to happen. But to reiterate a point I've made before, we're seeing that pipeline continue to expand, both by products because of product development at a number of these firms and also continue to extend out as both of these newer products are going to enter fundraising cycles, but also as large separate accounts become a bigger part of the asset base of these firms as they evolve. Now there's going to be a bunch of lumpiness to that as these large mandates come. But no, we still think we're in the early stages and we continue to see the opportunity, if anything, growing both in magnitude and duration.

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*

On the global equity redemptions, could you just dive into those a little bit more? What strategies, or what types of strategies, and were they performance-related in your view?

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

Yes. It was across a couple of different strategies. Look, you never know exactly the reasons, right? And even when people will tell you, it's not always clear that they're exactly right. But I think in the main, this is coming through portfolio positioning decisions made by very large institutional clients. Again, they were definitely idiosyncratic and kind of lumpy.

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

Yes. And I think a little bit just listening to the tone of the question or maybe our responses, part of having a big, diverse product set and overall business is that even in periods where we were surprised because we have very large mandates that are won and just got pushed into this quarter in global equities. And so it was a quarter that, to us, seems anomalously or misleadingly low in terms of the global equity contribution. And yet, the strength of our alternatives franchise, including especially the illiquids, as Nate is describing, allows us to still have a good flow quarter -- these are good, strong, obviously high-fee, products in the alternatives category. And so if you look forward, we have every reason to be quite optimistic

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about the overall trends in global equities, normalizing or even improving, honestly, given the strong performance among a number of our largest Affiliates. And then continuing, which is now really the biggest piece of our business, this very strong contribution across a range of alternative products. So that's really underlying the overall optimism that we feel.

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 to go back to the flow picture a little bit. I guess, as we look at the trends and how they're sort of differing from what your normal sort of ins and outs are across the product categories. I mean, is it fair to say, it looks like the fundraising could have been a good $5 billion or $6 billion this quarter in illiquids. And again, I'm just comparing 2Q versus 3Q, and then the size of the lumpy outflows. Again, we've had a $2 billion greater differential in redemptions in the global equity category. And then, I guess, if you can also -- I appreciate that you can't really discuss fundraising while the funds are in process. I understand that. But if there's a way you can just disclose that after the fact, so we can get an understanding of the importance of fundraising to your net flows?

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

Perfect. So I think you're thinking about it roughly correctly. The only -- if I understood it exactly right, the only modification I would make is, on the alternatives flow side, there's also very good traction -- trajectory on the liquid alts side of our business as well. But for that, kind of component piece, I think you're thinking about it well. And then, obviously, we're certainly happy to look at what we can disclose on the fundraisers as we go.

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

But again, emphasizing that it's partly, of course, flagship funds having closings, but it's also increasingly separate accounts and funds of won and other kinds of mandates that won't necessarily show up as a close. And that's why you're hearing us talk about this as more than just sort of the finite $10 billion. It's something that, as we look out over the next year, year and a half, we see ongoing momentum.

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*

Maybe going back to flows. I mean, understanding that you're very optimistic on flows to higher fee alternatives, global strategies, but I guess, maybe looking at it at a different dimension since, I guess, it's really kind of the EBITDA contribution that matters the most to you guys. Could you give us a sense of, if we look at the flow this quarter, and if we look at what you're expecting, what was the EBITDA contribution to flows? But maybe more importantly, is there any reason that we should think that the flow mix, given the Affiliate mix and whatnot that, that contribution per asset could be trending up maybe just given the mix of Affiliates? Or should we expect it to be relatively constant going forward? Just trying to get a sense of if there's kind of some leverage in those flows for that contribution to you.

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

Yes. It's Jay, Rob. Let me see if I can take that and then maybe Nate, if I miss anything, will add. Look, I think in general, as we add alternative product, and in particular illiquid product, you get the benefits of base fee, performance fee and in some cases, long-duration. So we do find those product

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categories to be particularly attractive and additive to EBITDA contribution over a long period of time and even in quarters like this one. This quarter obviously, we've had quite a bit of asset appreciation. So clearly, our run rate EBITDA going forward is noticeably higher than it was last quarter and that includes not only from the flows, but also market changes and FX. So I think that is, at least at this point, a pretty strong tailwind that we've got going for us. But I want to reiterate the performance fee and the duration component of these types of fundraises.

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

Yes. And I think you, of course, understand this. But relative to the public PE firms, which talk about flows and performance fees as if they're just like ours, those performance fees that they're anticipating or recording are mark-to-market. For us, we have a different accounting method, method 1, which only takes performance fees and the contribution from performance fees in as they're realized in cash. And so it doesn't mean these flows are any less valuable. And especially as we build a book, and have contribution that will be consistent over time, it's quite valuable. But it will not show up necessarily as quickly or in the same way as it would for some of the other public companies.

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*

Shifting gears a little bit. I want to hit on just the investment spend backdrop for your Affiliates. So over the last couple of quarters, most of your large peers in the space have been highlighting rising investment needs really across the business to kind of sustain flows or get better flows. Can you guys spend a minute on where your Affiliates are spending today? And I guess, more importantly, how this may impact AMG's overall kind of earnings, right, since obviously with the revenue share, I don't think there's a ton that will flow through. But I guess, kind of how do you balance making sure that, A, they continue to invest and at the same time that they are the ones kind of bearing the cost of it?

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

Why don't I start with a kind of high level set of observations about what we're doing at the AMG level. And Nate, you can fill in with Affiliates. Of course, we've seen a lot of this conversation around investments and people talk about "Technology" and assigned a large number to it. And it means different things to different people. I think a lot of it is around investing in processing and manufacturing capabilities for passive products. That's just not a business we're in.

A lot of it is back office and off-shoring and other things. That is less a function of our business and not something that we worry anywhere near as much about. Obviously, we run the business efficiently. Jay can elaborate on that. Sometimes "Technology" spend is around retail distribution initiatives and robo-advisers and that sort of thing. Nothing against the robo-advisers but it's really not nearly as meaningful part of our business given our global institutional focus. And we have invested, continue to invest, in a very meaningful way. And are getting traction and I'll put our active equity and alternative flows against anybody's in the industry. And on a rolling basis and certainly, looking forward. So it's not that we're not investing and -- but we're not doing it from a position of feeling defensive. I think we feel like we're in a very good position and we're building and investing to generate incremental positive flows through extending what our Affiliates are already doing on their own. Do you want to add to that, Nate?

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

The only thing I would add, this relates back also to some of the distribution strategy question that was asked earlier, right? I think if you think about the spend -- if you think about our Affiliates business, especially our largest Affiliates, these are leaders in their investment disciplines and they're generally in the business of producing that return stream, right? And so there's a set of investment spending necessary to produce that return stream. For some of them, absolutely, that means incremental investing as they compete but that's part of the business. Again, as Sean said,

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it's part of the business that these firms are have been in. If you think about a firm like an AQR or Winton or a Systematica or a BlueMountain or a Capula, these kind of firms absolutely have that as part of their competitive advantage really, and have as part of -- as they built their firm, right? So that is certainly ongoing. And as Sean said, we feel good about that and these are absolutely leading firms and that's an offensive capability in a lot of ways. And then there's the relative to what the go-to-market strategies are for these firms and for us more broadly and these all do relate, right? I think we're being very thoughtful about how we make the investment spend relative to the opportunity focused on the return and the margin of the opportunity. And so this relates in part to the questions about packaging and distribution of what market segments or what geographies we're going after. So while there are investment spends that we're making, they're, I think, very modest relative to the opportunities that we're seeing.

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

Yes. And I would add one more point. I think we do not accept the idea that somehow massive incremental spend on, let's say, technology, is the answer and the only way for forward alpha generation in active products. In other words, we believe, and the evidence bears this out, and the ongoing interest that clients and intermediaries are showing in the best boutique firms, and just simple common sense, is that scale is the enemy of alpha generation, generally. And our approach, which is a set of focused performance-oriented boutiques addresses, we think, very effectively, that issue. And so the idea that a business that is perhaps challenged because of an integrated setting, with very large scale, it's just harder to generate alpha, that somehow, magically, spending more money or doing something different is going to create superior alpha generation when it's not currently seen is -- I mean, maybe that will happen, but I think for us, we're betting on -- as Nate said, the individual focused efforts of our group of Affiliates, some of whom are the absolute leaders in the world in developing advanced quantitative techniques. In fact, if you said, "Which public company is the best positioned in terms of having the proportionate exposure to the very best quantitative systematic managers who are at the cutting edge of applying buzzwords, like machine learning and artificial intelligence", it's us, AMG -- through AQR, First Quadrant, Winton, Systematica, and a number of other firms, but those are some of the absolute leaders in the industry. So we feel like, collectively, we're absolutely making the investments we should do and should make to sustain this alpha generation.

Operator

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

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

Sean, maybe -- just shifting over to the M&A environment and the backdrop. Just wanted to get an update. It's been a little bit of time since you guys have done a deal. So just what you're seeing out there, in terms of both the opportunities but also valuations? And then Jay, maybe on that front. When we look at the EBITDA level now, what you guys have done in terms of paying down some of the debt, just remind us in terms of maybe the capacity or how much potential opportunity you have if you do see some attractive transactions and if the economics have changed at all. I know in the past, you said, like $100 million would get you so many cents in ENI or adjusted net income. So any update there?

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

Sure. Well, as I said, we are busy. We are working on a number of transactions. But as you know, we do our best to avoid auctions. We are always, but I would say especially when markets are at all-time highs, we are highly selective and highly disciplined. And then in terms of the supply of outstanding boutique firms who are looking to pursue a succession planning transaction in the current environment, given the ongoing uncertainty -- geopolitical, regulatory, tax -- is probably playing a factor at this point. There are just excellent discussions, and we see this because our strategy, of course, is to go out and build and maintain relationships with the best boutique firms in the world, and not to wait until the bankers send us a book. So are there bankers sending books? Yes, a few, but not as much as one might expect given the markets. But I'm very pleased with the relationships that we're maintaining and building, and that's the forward pipeline. And inevitably, if you're working on one-on-one negotiated transactions, where the dynamics of the individual partners and their own circumstances are at play, and couple that with an uncertain world, that's why these transactions take longer. So tremendous long-term secular opportunity that exists, I would say, is strong as ever, may be stronger,

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given our relative position. In the short to medium term, we're working on transactions. We feel good about the forward contribution. But we're not ever going to feel any pressure to reach, and pay more than we think is appropriate for an investment, or to lower our standard, and just so that we can announce a deal once a quarter or whatever. And happily, and I'll turn it to Jay, our business allows for us to repurchase stock or pay down debt and generate earnings contribution that way, which, to us, given the strength and scale of our overall business and the organic growth, that feels like a very good investment.

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

Yes. And then on the balance sheet. I'm glad you noted it. I think we've positioned the balance sheet, really in the last 12 months, to maintain a lot of flexibility, and we built capacity. We've opportunistically repurchased high-priced debt, and so that was accretive to us. As you look forward, as Sean said, we're making progress on a new investment pipeline. And even if we announced a transaction in the fourth quarter, it wouldn't close until the first quarter likely. So we will see additional capacity built. And then when you look at it on a full year basis, we can certainly execute just with the current cash flow of our business over $1 billion worth of transactions, together with the capacity that we've built with a leverage ratio that's going to fall below 1.7x here this quarter. I think we have an additional, call it, $0.5 billion more of just leverage capacity. So we really have maximum capacity, at this point, to execute on a wide range of transactions, number of transaction, size of transactions, et cetera. In the meantime, we will continue to consistently repurchase shares, which obviously is accretive. And as I mentioned in my prepared remarks, we expect to do $100 million in this quarter. So we are in a place where our scale allows us to not only do new investments in scale, but also repurchase in scale and also build capacity through delevering.

Operator

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

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

I think the market have kind of come to the conclusion that the treasury white papers is pretty innocuous. But I would be curious to get your thoughts on anything in there that you think is particularly good or bad for your business, specifically.

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

I think we've learned in the current environment to not spend too much time on the interim updates around pending legislation because it all seems to change dramatically, if indeed it even gets enacted. So what would I say, and I'll ask my colleagues to join. I would say nothing that we've seen is at all problematic. I think tax reform, which, depending on how you describe it, might just mean lower corporate taxes. Would, of course, be a good thing for us, and we have and Jay can, again, quantify what the magnitude of that would be. I won't speculate on what it would do to financial markets, and I think we'll wait until we see something actually happen or get close to being enacted to spend, frankly, a lot of time worrying about it. Maybe that's too pessimistic.

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

Yes. I mean, I did take a look at that, Patrick. And I think, it appears to us to have more of an impact in other industries within financial services as opposed to specifically asset management or AMG. I think Sean's right, in general, we're mindful of all this regulation and white papers and change. But so far, most of them, except for the tax reform, has kind of a second order, or even a third order impact on us, which will give us time to react if we needed to. At this point, does not seem to have a material financial impact to us, other than potential tax reform, which could be significantly positive.

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Operator

Our next question is a follow-up from the line of Robert Lee with KBW.

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

I'm just curious. When you look outside the U.S., I mean, obviously, you guys have invested in over the years and talked a lot about kind of the -- your institutional business outside the U.S. But could you maybe update us on your thoughts around building or expanding some of your, kind of, retail markets outside the U.S. like [bps or CCABs] or whatever that may be? And maybe some of the -- if you are, some of the investments or initiatives you have underway there?

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

The answer is, at a high level, yes, absolutely. I mean, it's an area of growth. There's a need to, I think, over time, and it varies by market. But over time, we need to be able to take a very strong institutional level distribution marketing capability, and take it a level down -- not maybe to pure retail, but to have the retail product vehicles available. And so, we've done a bit in building the capabilities in Europe, but there's a lot more that we want to do. I think we're going to be careful to not -- because business is good and we see very strong ongoing organic growth doing what we're doing. And so like responding to an earlier question about whether we're making investments offensively where we see even better opportunities, or defensively because somehow we think that our franchises is going to be in peril, it's very much the former. But it doesn't mean that it's not high on our list. And exactly how we pursue building out that capability is, is it going to depend on the circumstances, and it could involve a different kind of transaction, it could involve a market-by-market approach -- I can't really be more specific at this point. But Nate, maybe you can provide a little more color on that.

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

Yes. The only thing I would add, and I agree with what Sean just said. We are doing it in some of our Affiliates and we, on behalf of our Affiliates, have been building some packaging capabilities. Some of that is to execute against specific geographies. But then the other theme I would bring into this is we have been -- as you've heard us talk about, we've been working increasingly with the largest global sophisticated clients and the intermediaries to serve them. That includes sort of global intermediaries to more retail parts of the market. And so one of the things we have been working on in those conversations with them is making sure that we have the ability, as we provide product to them, working across their entire platforms. And so that leads us into needing to build some packaging capability alongside the revenue opportunity with those large, global intermediaries. So that's the place, specifically, where we have been doing some additional work.

Operator

Ladies and gentlemen, we have come to the end of our time allowed for questions. I'll turn the floor back to Mr. Healey for any final remarks.

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

Thank you again for joining us this morning. We're pleased with our results for the quarter and confident in our ability to continue to create shareholder value through the organic growth of our existing Affiliates, accretive investments in new Affiliates and consistent capital return to shareholders. We look forward to speaking with you again in January.

Operator

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

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