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## AMG - Q4 2017 Affiliated Managers Group Inc Earnings Call

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**OVERVIEW:**

AMG reported 4Q17 GAAP EPS of $5.50. Expects 2018 economic EPS to be $16.50-18.50.

## CORPORATE PARTICIPANTS

**Selene Oh** *Affiliated Managers Group, Inc. - VP IR*

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

**Nate Dalton** *Affiliated Managers Group, Inc. - President and COO*

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

## CONFERENCE CALL PARTICIPANTS

**Dan Fannon** *Jefferies LLC - Analyst*

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**Ryan Bailey** *Goldman Sachs - Analyst*

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**Brian Bedell** *Deutsche Bank - Analyst*

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## PRESENTATION

**Operator**

Greetings and welcome to the AMG fourth-quarter 2017 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.

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**Selene Oh** - *Affiliated Managers Group, Inc. - VP IR*

Thank you for joining AMG to discuss our results for the fourth 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 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 will turn the call over to Sean Healey.

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

Thanks, Selene, and good morning everyone. AMG reported record Economic earnings per share of $4.68 for the fourth quarter and $14.60 for the full year, representing growth of 23% and 14% over the respective periods of 2016. Our assets under management also grew 21% to a record $836 billion.

Our excellent results for the year reflect strong organic growth, including the long-term investment outperformance of our alpha-generating Affiliates and positive net client cash flows, along with the ongoing execution of our growth strategy. Given the increased scale, diversity and earnings power of our business, we are confident in our ability to continue to generate strong growth going forward.

We are pleased with the organic growth we generated in 2017, with assets under management having increased nearly $150 billion in the year. Our results demonstrate AMG's ability to generate strong growth in a rising equity market environment, notwithstanding our substantial exposure to uncorrelated alternative strategies, which are optimally positioned for periods of market volatility and provide stability and resilience to our business across market cycles. We also were pleased to generate positive net client cash flows during both the quarter and the year, notwithstanding continued industry-wide net outflows in actively managed strategies.

Looking ahead, we are seeing increasing demand for our Affiliates' global equity and alternative strategies as clients around the world continue to seek differentiated return streams in anticipation of an environment of increasing dispersion of asset returns.

The fourth quarter was a record gross sales quarter for us, and as Nate will describe further, we are seeing strong business momentum across our alpha-oriented product set. Given the underlying fundamentals in many non-US regions, both U.S. and non-U. S. investors are expanding their allocations to these markets, and we are seeing ongoing opportunities for growth in global equities, which today account for 35% of our assets. In addition, we see strong growth going forward across our alternative product range, which accounts for nearly 40% of our assets.

Investors are increasingly seeking uncorrelated sources of alpha, and with one of the industry's broadest and most diverse ranges of alternative strategies, including relative value, systematic diversified, private equity, multi-strategy, and other alternative products, AMG offers clients true diversification from traditional fixed income and equity markets.

Global clients increasingly recognize the advantages of specialist boutique firms in managing the alpha portions of their portfolios -- but they are simultaneously concentrating their manager relationships. Given this ongoing trend, it is clear in the future, excellent investment performance won't necessarily be enough for smaller specialized managers lacking product breadth and global reach.

Through AMG's global distribution strategy, which combines centralized distribution resources which complement our Affiliates' marketing efforts, we offer our Affiliates, and ultimately our clients, the advantages of global scale in distribution and compliance while also providing the excellence in alpha generation of focused and aligned boutiques.

As large institutions and intermediaries consolidate their manager relationships, they are attracted to AMG's single point of access to the world's broadest array of boutique alpha-oriented strategies and are building strategic relationships with us across Affiliates and asset classes, and we believe these kinds of relationships will be an increasingly important element of our organic growth going forward.

Turning to New Investments, given our outstanding track record as a permanent strategic partner to our Affiliates over the past two decades, AMG has a tremendously attractive secular opportunity to continue to create incremental earnings growth and shareholder value through investments in additional excellent boutique firms around the world.

Given the favorable market environment and the strong performance generated by many boutique firms, along with recent changes in U.S. tax law, we are seeing increasing new investment opportunities and have a diverse and growing pipeline. With our unique competitive position as the partner of choice to outstanding independent firms, we will remain highly selective and disciplined in the execution of our New Investments strategy.

In addition, given the increasing scale of our business, our strong recurring free cash flow is an important source of shareholder value, and we are positioned to consistently return capital to shareholders through dividends and share repurchases. Reflecting our confidence in our forward prospects, our Board of Directors has approved a 50% increase in our dividend along with a meaningful additional share repurchase authorization.

Looking ahead, AMG is well-positioned on a global basis across all elements of our growth strategy, and the increased breadth and scale of our business, along with our unrivaled reputation as a partner to outstanding boutique firms, will continue to create additional avenues of growth through extending the marketing reach of our Affiliates, building strategic relationships with key global clients, and enhancing our capabilities across client types. We look forward to continuing to generate strong earnings growth and outstanding long-term shareholder value in the years to come.

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

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**Nate Dalton** - *Affiliated Managers Group, Inc. - President and COO*

Thanks and good morning, everyone. As Sean said, AMG ended the year with a very good fourth quarter. As we participated in rising markets, our Affiliates as a group added to their excellent long-term track records, and our Affiliates and AMG together added positive net flows.

We are entering 2018 with great momentum across our diverse range of actively managed strategies. Absolute and relative performance continues to be excellent, and the level of sales activity from both AMG and our Affiliates' business development teams is very high, really across channels and in all stages of the pipeline.

Before turning to the details, though, I wanted to review some of the highlights from our flow profile last quarter. While the net number was positive at $1 billion, that really understates the size of the opportunity we are executing against. From a sales standpoint, this was our best quarter ever, with nearly $40 billion in gross sales as a result of good execution across all of our client types.

While we did have some lumpy wins in the quarter, we also had a couple lumpy partial redemptions in the quarter as clients rebalanced in some accounts that had significantly appreciated. Finally, this excellent sales quarter was also impacted by some fourth-quarter seasonality, including tax loss harvesting and dividend and capital gains distributions within our retail business.

As I said, we feel very good about the forward pipeline and opportunity set as we enter 2018. We have a high level of institutional activity across won but unfunded mandates, finals, and RFPs across our diverse set of equity, multi-asset, and liquid alternative strategies, and our fundraising pipeline of illiquid strategies, including private equity, infrastructure, real assets, credit, and co-investment products is not only beginning to convert, but is also continuing to extend and grow. Overall, we see a tremendous ongoing opportunity for performance-oriented strategies providing high-conviction alpha and true diversification. 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, continue their strong long-term track records across their flagship offerings in categories such as global and regional private equities, primary secondaries and co-investment, and infrastructure including energy. Each of these Affiliates has broadened their product lines to diversify their growth opportunities in complementary areas, such as co-investments, credit, infrastructure, real assets, and real estate. The increased breadth of these franchises across both legacy flagship strategies and scalable product line extensions has created a strong and enduring organic growth opportunity.

We are also working closely with these firms to extend their distribution reach across new geographies and client types. We believe these businesses will make a substantial contribution to what is an enhanced growth profile for AMG.

In fixed income and equity relative value, most major indices were positive for the quarter. The HFRI Relative Value Index posted a 1.1% return and the HFRI Equity Hedge Index returned 3.5%. On the other hand, the HFRI Event-driven Activist Index was an outlier with a loss of 0.9%.

In terms of our Affiliates, ValueAct had a very good quarter, outperforming both its peer group and benchmarks. Outside of ValueAct, performance in the category was more mixed across key products at AQR, BlueMountain, Capula, and Systematica. But all of these strategies continue to maintain very good long-term track records and are off to a good start in 2018.

Within our multi-strategy and other category, our primary index, the HFRI Fund Weighted Composite returned 2.7% for the quarter. Against that backdrop, most of our Affiliates' key strategies generated excellent absolute returns and relative returns in the quarter, benefiting from strong market betas across multiple asset classes, and these trends have also continued into 2018. Products that performed particularly well last quarter included AQR's multi-asset style premia, alternative beta, risk parity strategies, and multi-strategy products, as well as First Quadrant's risk parity and commodity strategies.

In our systematic diversified category, industry returns were good in the quarter with the SocGen Trend Index rising by 7.7%. While experiencing weak absolute performance through the first three quarters of the year, the group capitalized on strong trend signals in the fourth quarter, pushing overall 2017 returns into positive territory. This positive performance has continued into 2018, although obviously early days. Amongst our Affiliates, in the fourth quarter of 2017, Systematica outperformed the index and their high-quality peers, while the managed futures products at other Affiliates all generated good absolute returns but were more mixed relative to the index.

Now turning to flows in our alternatives category. We had another good quarter of organic growth supported by continued sales momentum across both institutional and retail clients. While gross sales were very good in the quarter, net flows at a positive $1.1 billion were a bit below trend, as we experienced some portfolio rebalancing activity within our institutional business and some seasonality in our retail business.

Looking at the quarter on a subcategory basis, consistent with recent trends, we continued to see good flows in the multi-strategy and other subcategory, while systematic diversified continue to be in net redemptions, but with improving performance in the fourth quarter and into January we would anticipate this to reverse. 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. Finally, we also had another strong quarter in our private equity and more illiquid product set as we saw some significant wins and interim fund closings again.

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

Turning next to our global equities category, which accounts for approximately 35% of our business by assets.

It was a great quarter for global developed markets as the MSCI World Index returned 5.6%, with investors rewarding those stocks and sectors with especially high-growth characteristics. Against that backdrop, our Affiliates generated mixed relative results in the quarter, with the flagship global strategy at Harding Loevner outperforming while more value-oriented strategies at Tweedy, Browne and Veritas underperformed the broad index. However, overall performance in 2017 was very strong, with the largest strategies at AQR, Harding Loevner, Times Square, Trilogy, and Veritas outpacing their indices while the group as a whole continues to have excellent long-term track records.

Emerging markets also posted very strong returns, with the benchmark MSCI Emerging Markets Index up 7.5% in the quarter. Among our Affiliates, the Genesis flagship products outpaced the index, while AQR and Harding Loevner lagged for the quarter, but continued to maintain their excellent long-term track records.

Moving to global equity flows, we had meaningful improvement from the third quarter with a return to positive net flows behind a very strong sales quarter and we continue to see a high level of activity within the category across both developed and emerging market products.

As Sean said, we are participating in a broad-based trend in which investors are increasingly shifting away from their home country bias -- but also more recently, investors seem to be interested in rebalancing further away from U.S. equities, given the recent relative performance of U.S. markets. We are very well positioned as this continues to unfold as AQR, Artemis, Harding Loevner, Tweedy, Browne, and Veritas all maintain excellent long-term track records in their primary products but also as we have a significant level of product development and there are a number of new products beginning to get traction.

Turning next to U.S. equities, which accounts for 14% of our business by assets, markets were meaningfully positive, as large caps outperformed small caps and growth outperformed value. For the quarter, the S&P 500 returned 6.6% while the Russell 2000 index returned 3.3%. We had very good relative performance in a number of small cap strategies, an area where many of our Affiliates, including Times Square, Frontier, GW&K, River Road, and SFM outperformed across their flagship products. Affiliates with U.S. largecap strategies, including SFM and Yacktman, also outperformed their benchmarks and peers this quarter.

Within U.S. equities, we saw $1.6 billion in net outflows as institutional search activity and retail demand for actively managed U.S. strategies continues to be relatively muted across the industry. That said, we continue to see an improved institutional redemption profile and some sales growth, in particular within our quantitative and factor equity strategies, partially offset by the seasonal impact of dividend and capital gain distribution outflows within our retail business.

Finally, moving to the multi-asset and other category, which accounts for 12% of the 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 an excellent quarter, producing net inflows of $1.3 billion as we continue to see growing sales activity across all three of our client segments within our specialty fixed income and multi-asset product set, as well as some good new business growth within our wealth management Affiliates. Performance for most of the products in this category remains good versus their benchmarks and the customized portfolios of our wealth management Affiliates, broadly speaking, continue to perform well across their ultra-high net worth client bases.

The business we have built is very well positioned to perform across market cycles. We have an outstanding group of performance-oriented Affiliates, with diversity across a number of important dimensions, including product category, client segment, and geography. Together with our Affiliates, we are one of the largest providers of alpha-oriented strategies in the world, especially in alternatives and global and emerging markets equities. The combination of focused excellence by our Affiliates and the scope and scale of a global asset manager provides us with a number of significant opportunities to continue to improve how we together meet the evolving needs of clients.

As Sean said, we are making very good progress and see tremendous opportunities ahead. As we continue to execute, we will continue to enhance our position as the partner of choice to the best boutiques in the world and drive significant growth across our Affiliate group.

And with that, let me turn it to Jay to discuss our financials.

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

Thank you, Nate. As Sean discussed, we are pleased to report strong earnings growth for the fourth quarter and the full year, driven by strong organic growth in assets under management and a solid contribution from performance fees in the fourth quarter.

With record AUM of $836 billion at year-end and the positive contribution from changes in the U.S. tax law, the scale and earnings power of our business has meaningfully increased, and we are well-positioned for continued earnings growth in 2018 and beyond.

As you saw in the release, we reported Economic earnings per share of $4.68 for the fourth quarter and $14.60 for 2017, which excluded the one-time benefit from changes in the U.S. tax law that I will describe in a moment.

Economic earnings per share for the fourth quarter included net performance fees of $1.09, bringing our total to $1.45 for 2017. On a GAAP basis, we reported earnings per share of $5.50 for the fourth quarter and $12.03 for 2017.

Turning to our performance metrics, during the quarter, we renamed Aggregate Revenue to Aggregate Fees, but there was no change in the calculation of this operating measure. Aggregate Fees grew 29%, both in the fourth quarter and for the full year, to $1.7 billion and $5.5 billion, respectively, driven primarily by strong markets and organic growth in alternatives together with the full effect of our 2016 New Investments.

For the full year 2017, the ratio of Aggregate Fees to average assets under management increased year over year from 66 basis points to 71 basis points, reflecting an increase in performance fees. Excluding performance fees, we also saw a modest increase in this ratio as our AUM composition shifted toward a greater contribution from higher-fee alternative products.

For the fourth quarter, Adjusted EBITDA grew 25% to $361.3 million from a year ago and increased by 18% to $1.1 billion for the full year 2017. Economic net income grew in the quarter by 24% to $261.3 million from a year ago and increased by 17% to $824.4 million for the full year 2017.

Turning to more specific modeling items, for the fourth quarter, the ratio of our Adjusted EBITDA to average assets under management was 17.6 basis points or 12.8 basis points excluding performance fees, and for the full year 2017, this ratio was 14.3 basis points or 12.6 basis points excluding performance fees. Looking ahead, we expect this ratio to be between 13.1 basis points and 13.5 basis points in the first quarter of 2018, reflecting a range of performance fees between $0.20 and $0.30 per share.

Our share of interest expense was $19.6 million for the fourth quarter and $85.3 million for the full year 2017. We expect interest expense to remain flat at approximately $20 million in the first quarter and $80 million for the full year 2018.

Our share of reported amortization and impairments was $143.9 million for the fourth quarter, including $127.6 million from Affiliates accounted for under the "equity method," which was elevated primarily due to a non-cash impairment charge taken at one of our equity method Affiliates totaling $93 million.

For the full year, our share of reported amortization and impairments was $265.4 million, including $199.2 million from Affiliates accounted for under the "equity method." Going forward, we expect our share of reported amortization to return to approximately $47 million for the first quarter and approximately $190 million for the full year 2018.

Turning to taxes, in the fourth quarter, changes in the U.S. tax law resulted in a one-time net benefit of $194.1 million, primarily from the non-cash re-measurement of our deferred tax liabilities associated with our intangible assets and our convertible securities. This amount included the effect of the repatriation tax, which was not material to our results or cash flow. As you saw in the release, we excluded the effect of these changes in the US tax law from our Economic net income.

With regard to our tax rates in the fourth quarter, our GAAP and cash tax rates were impacted by the changes in the U.S. tax law. Our effective GAAP tax rate turned negative in the quarter and was only 6.8% for the full year.

Going forward for modeling purposes, we expect both our GAAP and our cash tax rates to be meaningfully lower and estimate a 25% GAAP tax rate and a 20% cash tax rate. As a result, we anticipate $50 million in run-rate tax savings, which is expected to grow over time.

For the fourth quarter, intangible related deferred taxes were negative $12.9 million and for 2017 were positive $48.8 million, which included the tax effect of the impairment charge of $35.7 million, reducing intangible-related deferred taxes. We expect intangible related deferred taxes for the first quarter to be approximately $10 million or approximately $40 million for the full year 2018.

Other economic items for the fourth quarter were $9 million and $14.8 million for the full year, which included non-cash expenses related to adjustments in our contingent payment obligations of $5.2 million and $6.6 million, respectively. As we look forward for modeling purposes, we expect other economic items to be approximately $2 million per quarter or $8 million per year.

Our adjusted weighted average share count for the fourth quarter was 55.8 million and we expect it to be approximately 55.5 million for the first quarter.

Turning to our balance sheet, in the fourth quarter, we repurchased approximately $140 million in shares, bringing our total to $416 million in repurchases for the year, and we paid our quarterly cash dividend.

Given our strong 2017 performance and the increased cash flow of our business, our Board authorized a 50% increase in our quarterly cash dividend to $0.30 per share payable in the first quarter and also increased our share repurchase authorization to 5 million shares.

Looking ahead, with run-rate EBITDA of over $1.2 billion and given the significant and growing 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, turning to full-year guidance. For 2018, we expect Economic earnings per share to be in the range of $16.50 to $18.50. Our guidance range reflects market performance through last Friday for the current quarter and our normal model convention of 2% quarterly market growth beginning in the second quarter.

At the midpoint of our guidance range, we expect performance fees to contribute approximately 13% and the ratio of our adjusted EBITDA to average assets under management to be approximately 14.1 basis points. We also plan to repurchase approximately $300 million in the first half of 2018, which is included in our guidance. Lastly, we expect our weighted average share count to be approximately 54.9 million for 2018, which includes the share repurchases I mentioned.

As always, these assumptions do not include earnings from future New Investments and are based on our current expectations of Affiliate growth rates, performance, the mix of Affiliate contribution to our earnings, and tax savings under the new tax law. Of course, substantial changes in markets and the earnings contribution of our Affiliates would impact these expectations.

Now we will be happy to answer your questions.

## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions) Dan Fannon, Jefferies.

**Dan Fannon** - *Jefferies LLC - Analyst*

Thanks, good morning. Jay, just to follow up on the last question with regards to guidance, a couple things. It sounds like the first quarter performance fee number looks -- you said $0.20 to $0.30 --I guess maybe that you give us the context for the year as well as your general outlook for flows or other assumptions as you think about 2018 in that $16.50 to $18 range.

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

Okay, yes. Thanks, Dan. Let me start. I will address the first quarter in a moment, but let me just start by talking about the model convention again. We start the year obviously at $836 billion, which is a record for us. But as of Friday, our market blend is up about 4% quarter to date, which means our AUM is nearly $870 billion at this point, just based on markets.

As you know, we don't assume any more markets in the quarter. We will, for model convention, put 2% in our models per quarter thereafter. You also know that you can track our market blend over time based upon the indices that we have indicated in Nate's script. You should be able to track that and adjust throughout the year. But obviously, we are starting the year at a high level and we have gone higher.

I also mentioned that for the full year, we see EBITDA to average AUM at about 14.1 basis points. And we anticipate about 13% contribution from performance fees. In 2017, we had about 10% contribution from performance fees.

I think people are aware that we had a very good fourth quarter across all of our business, but in particular in the systematic diversified. So that sets us up well for 2018. As we did last year, we expect to give you quarterly updates on performance fees and talk about seasonality, because there is some seasonality in our business with respect to performance fees.

Lastly, like we did last year, we are going to indicate the forward repurchases. We have put $300 million into our model for repurchases in the first half. We will update you next quarter as we reflect on the pacing of New Investments.

Clearly, with our repurchase scenario as well as our new dividend, we only are putting in $400 million of capital in our model, but we have up to $1 billion of after-tax cash flow expected. So there is $600 million of cash, it is just not in our model. That would be upside to the extent that we deploy it throughout the year or early in the year. So we do think this is a conservative estimate.

Now, to your seasonality question, as you recall, a number of our Affiliates are on a one-quarter lag. Together with really good fourth-quarter performance, it bodes well for the first quarter. We did come out with a performance fee guidance of $0.20 to $0.30, which is up from $0.18 a year ago, so it is shaping up to look like we're going to have more performance fees in the first half, frankly, but certainly in the first quarter. Just reminding you that the first quarter tends to be, outside of the fourth quarter, our second-largest performance fee, or at least by contract, the most opportunity for performance fees in an average year and scaling down second and third quarter thereafter. When you reflect back on the range, again, 13% at the midpoint, given the performance that we are coming off of, doesn't seem like too much of a stretch -- kind of a neutral to middle estimate, could be a lot higher, and of course, if we put the capital work, it could be a lot higher as well.

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**Operator**

Bill Katz, Citi.

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**Bill Katz** - *Citigroup - Analyst*

Okay, thank you very much for taking the questions. I apologize for the hoarse voice. Could you maybe pick up on that last point, Jay -- or actually Sean. Now that we have the tax reform behind us, obviously markets are doing what they are doing. Could you give us a sense of how that may be changing the dialogue in terms of new opportunities on the deal side?

And then, we are hearing a bit of a pickup on pricing as well. Sort of talk about maybe both the pipeline now that we know where we are on taxes as well as the pricing associated with that pipeline. Thank you.

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

Thanks, Bill. Away from the direct impact of the tax law on our earnings, which Jay commented on, there is an effect on New Investments. I would say first, it contributes along the tax law, contributes along with a very attractive market backdrop, to what we're seeing, at least so far in the year,and I expect it to continue and accelerate -- which is an increasing level of interest on the part of excellent boutique firms in pursuing succession-oriented transactions.

It's clear that at the end of last year, there was uncertainty around what would happen with the tax law, and the new tax law, the certainty is there. And of course, there is more value -- value that I'm sure will be shared with sellers and buyers. But that contributes to a very attractive environment and opportunity for us.

I would remind you that, to get a sense of the size of the opportunity set, if you take the top 100 prospects that we have in our universe, firms with which we've built strong relationships over time, the transaction value -- interpolating from the size of these firms and what we know of them -- the transaction value would be over $50 billion. So it's an enormous opportunity, a tremendous secular opportunity for AMG.

The last thing I would say, and this is a bit more nuanced, but I think it's real, is that the competitive dynamics are more favorable for us relative to non-U. S. firms than they have ever been. Historically, non-U. S. firms, as I am sure you realize, had an advantage in their ability to earnings strip and achieve a lower rate for those firms that were in jurisdictions with lower home country rates. And now that advantage has been removed. And in some ways, even, there is actually a disadvantage to those firms and inverted entities, who we inevitably compete with. So the overall effect, as I said, away from the direct effect of the tax law, I think will be quite positive for us.

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**Operator**

Michael Carrier, Bank of America Merrill Lynch.

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**Michael Carrier** - *BofA Merrill Lynch - Analyst*

Thanks, guys. Maybe just a question on the flows and the organic growth. When we look at your mix, both on the alternatives and international, you are fairly well positioned, just given some of the industry dynamics.

But Nate, maybe for you. If you can give us some color around where you are seeing some of those rebalancings, some of the seasonal distribution impacts on the retail side. And then when you look across all the Affiliates, areas where things are going well, you are seeing the demand, performances is there, versus any pockets where you have some performance challenges that may or may not rebound in 2018 or 2019.

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**Nate Dalton** - *Affiliated Managers Group, Inc. - President and COO*

Perfect. I'll try to hit all these pieces. As you heard us say in our prepared remarks, obviously gross sales were very strong this quarter across the board. So that was a very positive sign.

And then I would say there were three things that impacted us on the redemption side, which if I were going to try to dimension them, I would probably dimension them together at about kind of $4 billion or so across the three things I am going to hit here. One is seasonality in the retail across products, but primarily that came through in alts and I will explain in a second. There was some seasonality in alts in both the institutional and high-net-worth channels as well, and I will describe that. And then there was some of these institutional rebalances and some of that actually also came through in alts, so if you look at the alts gross outflow number, you will see that showing up there as well.

So to take those in order maybe, the seasonality in retail, some of that is kind of across much of the retail book, which is kind of distributions net of reinvestment amounts. But also there is tax loss selling and that came through primarily in the alts book. Here, you can think of something like managed futures, which have been kind of down for the year and we talked about that. And that was a period when lots of equity products appreciated, so people were taking those losses.

We saw the same thing last year, and then we also saw those flows reverse into the first quarter. If you look at what's happening in January so far, you are seeing exactly that, you are seeing those flows reverse into the year. So that was the first piece: seasonality in retail.

There is also some seasonality in the alts book in institutional, and that's really because you have lots of products where the locks -- single-year or multi-year locks tend to expire right at year-end. Subscriptions then might come in on January 1, just the way the products are set up, or in other quarters. But there are a lot that have locks at year-end. So there is that piece as well.

And then on the institutional side, we did have a couple of just rebalances at year-end. And an example in alts: we had one very sizable rebalance, a mandate that was being used to balance portfolio risk at the client level, and the client reduced this diversifying mandate by a significant amount.

So there were a few of those things together, and if you put all that together, that's in that $4 billion range split equally among the three.

To the other part of your question, as we look ahead, and hopefully you heard this optimism in our prepared remarks as well, especially in the alternatives book, liquid and illiquid, both the existing scale products, but also a lot of really interesting new products coming on. We feel really good about that product set. Then also in global equities, and I will also add, in multi-asset, there are some interesting things being developed as well. Really, those are the areas where we see lots of opportunity.

On the U.S. equity side, there is obviously the industry-level dynamics we talked about, which we continue to face. But there are a number of, especially as you heard us say in the smallcap area, a number of very good-performing and in-demand products there as well. But I think that's a place where just the industry dynamic is challenging.

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**Operator**

Alex Blostein, Goldman Sachs.

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**Ryan Bailey** - *Goldman Sachs - Analyst*

Good morning. This is actually Ryan Bailey filling in for Alex. Actually, I had a quick question on the impairment charge. I was wondering if you could give us any additional color there? And maybe if you can't speak to which Affiliate it came from, could you take us through why you took the charge? Thank you.

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

Yes, thanks. So just the backdrop -- we account for our Affiliates and amortize the intangibles over time. And to the extent that any point in time -- and again, that's based upon the original purchased assets. So what you don't count in accounting is the growth of new clients.

I want to first say, this is an accounting charge, and it's a non-cash accounting charge. We think we've been conservative here, just given the decline in one of our equity method Affiliates, but again, it's based upon the original clients, not on its new clients.

To take it in bigger, broader perspective -- as you know, the sum of all of our Affiliates have grown dramatically over the years, and so we don't mark up our Affiliates as they grow.

And then just specifically on this one Affiliate, yes, I think we can describe it as a small equity method Affiliate. It only contributed about $0.03 to our earnings, so it does not have a contribution. This doesn't reflect any material economics to AMG. Again, it's just an accounting charge. Frankly, we are confident that that business has good prospects and will benefit from a different investment environment.

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

Nate, do you want to give a little more context?

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**Nate Dalton** - *Affiliated Managers Group, Inc. - President and COO*

Sure. Again, I want to reemphasize a point Jay just made, which is this is us I think being conservative. And it's this non-cash accounting charge doesn't really save much more than that to the firm. And it's a firm we are confident in over the short, medium, and long term, frankly.

The firm is Ivory, which is a couple-billion AUM long-short equity firm. They have a very good long-term track record. But over the last couple years, they have had this kind of what I will describe as a bearish value-oriented bias, both in how they are constructed on the long side, but also the short side of their book. And they had relatively low net exposure. Obviously that positioning has led to some challenges in performance, and then also some client withdrawals, which obviously are not material to AMG on any level But again, to re-emphasize the point Jay made, we are very confident in the firm and we and they are working together on the best way to take this forward. But overall, great long-term track record, really good investment process and people, and we are confident in them.

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**Operator**

Robert Lee, KBW.

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**Robert Lee** - *Keefe, Bruyette, & Woods, Inc. - Analyst*

Thanks for taking my questions. Just curious -- maybe update us a little bit on if we look at your gross sales, could you give us a sense of how much of that today do you attribute to flowing through or being helped by your global distribution?

And then also update us on some of your AMG funds and retail initiatives where I believe it's probably been, given the environment, a little bit more of a challenge. But maybe update us on where that stands?

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

Sure. I will start and then ask Nate to add. I think with respect to global distribution, we don't break out the specific contribution quarter to quarter. Over the last 5 years, more than $50 billion in net flows have been through or involving AMG's global distribution effort.

And I think prospectively, the opportunity as I described and you've heard us talk about this and I think others note the trend of increasing concentration by the largest global institutional clients of their manager set, and I think all of that plays very much to our advantage.

We continue to invest and build our global distribution effort. I think the most recent or most material update I would give is that we've been getting very good traction in Japan. And we expect to open later this year an office in Japan, which will be a major step forward.

With respect to AMG Funds, I think there, too, scale is increasingly important. And you will have seen news in the industry around the major distributors also concentrating their relationships, and I think we are well positioned across AMG's overall business, including Affiliates, but also at the AMG Funds level, and we feel good about it.

Obviously, U.S. retail is a very difficult, competitive space. But I know we've got the scale and I feel good about how we are positioned and our performance this year. We are very pleased with the flows to date.

Nate, do you want to add anything to that?

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**Nate Dalton** - *Affiliated Managers Group, Inc. - President and COO*

Yes, I think maybe one maybe high-level point and then one detail. And the high-level point is -- I think everybody is tracking, but especially on the institutional side, and honestly, increasingly on the retail side, both in the U.S. and outside the U.S., there's really three categories of wins.

One is where our Affiliates all have their own sales, marketing, client service infrastructures and they are doing it themselves. One is where our infrastructure is really leading the sale. And then the third is where we are collaborative to a greater or lesser extent. And that third bucket is growing more and more, which plays into the theme that Sean just described. Because as buyers are centralizing and intermediaries are centralizing, they are all recognizing whether the Affiliate is coming directly or not, the relationship with us, and they are also working with us more broadly, and just the volume of those conversations and the interactions is continuing to increase.

And then the detail I would add is this quarter was actually quite a good quarter and our distribution teams were I think pretty impactful in some of the flows, which is great to see, and is coming across a number of Affiliates. So that is just working very well.

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**Operator**

Chris Shutler, William Blair.

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**Chris Shutler** - *William Blair & Company - Analyst*

Good morning. In private equity, it feels like a lot of the big flows are yet to come. But would you just please talk about the private equity flows in the quarter?

And then I don't know if it is too specific, but I know EIG was in the news winning a big subadvisory mandate with FS Investments in December. I think the number was around $4 billion or so. Just want to better understand how or if that will flow into the net flow picture. Thanks.

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**Nate Dalton** - *Affiliated Managers Group, Inc. - President and COO*

Got it. As you heard us say, in illiquid, which I would describe as including PE but certainly much broader than just PE, and we went through some of the other infrastructure -- real assets, credit, real estate, those kinds of things as well.

But if you think about our illiquids business in general, I'd say very good quarter. We had some sizable wins in the quarter. And we had what I will describe as kind of a relatively normal level of realization activity kind of on the other side. So at the highest level, that's what it is.

Obviously, as you alluded, there are a lot of rules around what we can and can't say. And both kind of on the legal side, but also a bunch of clients have confidentiality requirements and other things like that. But what I would say about both the quarter and the pipeline is the pipeline is definitely building, both growing in size and extending in duration. So that's a dynamic. And I would say the main components of that are flagship funds. We are starting to see some interim closings. We are seeing some additional funds beginning to market. And also, there is a separate account pipeline that's building alongside that.

And some of these are complicated mandates. In some cases, these are actually better to think about as kind of programs rather than mandates because they are intended to span multiple products and even multiple cycles. This plays into the theme of consolidating relationships as well, frankly -- people are trying to figure out how to get all these exposures on in a predictable fashion over a longer period of time, and again, across our product set, both Affiliates by themselves, but even frankly in a couple places across them, there is that opportunity. So that separate account pipeline is, complicated mandates but also you can think about as programs.

And then what we have been calling product line extensions, and we are seeing good momentum here -- some funds with both interim and final closings, some separate account activity. I think an important point is that the lines between these three segments kind of blur because as you think about these separate account programs, especially the multi-product ones, sometimes those get expressed as investments in a fund plus customized additions, and once product line extensions obviously get traction, they can be thought of as core to the Affiliate.

At the highest level, the overall pipeline in illiquid is growing, extending. And there are some very large -- many large opportunities in these coming quarters. So it's a part of the business we feel quite good about.

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**Operator**

Brian Bedell, Deutsche Bank.

**Brian Bedell** - *Deutsche Bank - Analyst*

Good morning, folks. If we could just focus back a little bit on some of the dynamics of the flows. Thanks for the comment on realizations. Maybe if you can talk a little bit about the private equity gross fundraises.

I think originally you were indicating about $10 billion from that. I think that's expanded since that original outlook. If you can maybe talk about what you've raised so far on the gross side, and then what it's looking like for the 2018 trajectory.

And then also comment on the -- it looks like gross sales picked up pretty nicely in US equities. Double the pace of the quarterly run rate. Maybe the driver of that? And then, Jay, just within your 2018 guidance, what your range is for flows within that?

**Nate Dalton** - *Affiliated Managers Group, Inc. - President and COO*

I'll try and capture at least all of the parts of this -- first two parts. On the illiquid one, I think the way I would describe it is pretty much the way I described it to the earlier question, which is it's definitely larger and extending.

It's sort of high, because the way we described it as kind of a $10 billion over a finite period. I do think we are going to exceed -- I think I said 12 to 18 months originally -- we are going to exceed the number. But again, it is both growing and extending. I think if you look at it year on year, I think we think that the contribution in 2018 to flows we think will be larger than the contribution in 2017, just looking at the schedule and some of these mandates and programs and conversations that are happening.

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

And enduring rather than episodic, I think is the way to think about it.

**Nate Dalton** - *Affiliated Managers Group, Inc. - President and COO*

Absolutely. And then -- to the second piece on U.S. equity, as you noted, we had good sales growth in U.S. equity. The overall profile continues to be frankly a bit challenging -- we saw a little bit better institutional redemption, and we did see sales growth. And if I were going to describe where the sales growth is coming from, I think it is mostly -- as I described, it as coming from that more quantitative or factor equity strategies.

The other note I will have is on the redemption side, while it did improve, there was still the seasonal impact of dividends and capital gains distributions, etc., within the retail business. I think we do see an improving trend, but I think the overall dynamics are as we described.

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

Beyond your question, the flow trends in global equities were actually quite positive. And as you heard in our prepared remarks, we see very good and improving, increasing opportunities there in that category.

Jay, do you want to --?

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

Just on guidance, maybe I will just up a level, Brian. We do have some structural conservatism in our range, always. Obviously, everybody is well aware of the capital. Again, just to repeat, we have about $600 million of capital that is not in our guidance.

I would also just point out that on the tax side, while we have been conservative in I think estimating a $50 million run rate number, that number will grow, of course. With incremental growth comes a higher margin on those earnings, if you will. I think there is some refinements in our business that will prove out that we will actually experience a higher than a $50 million run rate.

So we have capital, we have tax, and we also have flows. Because we don't really forecast flows, we put a very conservative number really to just show some upward momentum. But the reality is that the words that Nate and Sean have commented on here with respect to our momentum in flows, just really is not in our model.

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**Operator**

Patrick Davitt, Autonomous Research.

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**Patrick Davitt** - *Autonomous Research LLP - Analyst*

Good morning. My question's around the global -- the U.S. to global dynamic you were talking about. I guess the first part is does that suggest that we should expect accelerating outflows in the U.S. equity bucket?

And to what extent are you seeing those redemptions look elsewhere within the AMG Affiliate group, maybe on the global side? Is it rotating within the complex, so to speak?

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

I will start and then ask Nate to add. No, the answer is U.S. equity flow trends have been improving. And I think the way our business works, I'm sure you realize, is it's not integrated.

And so the opportunities that we're seeing in global equities across affiliates don't relate to our U.S. equity products set. There aren't going to be fundings from redemptions in our U.S. equity book. I mean, it just doesn't work that way.

I think we remain positive and optimistic around U.S. equities, which as you know is only 14% of our earnings. But especially positive and optimistic about global equity opportunities, which is partly around the performance of individual Affiliates, but also representing a view that the overall backdrop of the market environment -- we mentioned this -- home country bias eroding, relative valuations between U.S. and non-US markets, relative growth rates of other economies and finally, the decline in the dollar obviously benefits non-U. S. markets and us through our greater exposure to global equity. So I think all of that contributes to a very positive backdrop. It's early in the year, but these are trends that we're seeing in place and accelerating.

Do you want to add?

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**Nate Dalton** - *Affiliated Managers Group, Inc. - President and COO*

No, that's fine.

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**Operator**

Bill Katz, Citigroup.

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**Bill Katz** - *Citigroup - Analyst*

Thank you again. So early on in your prepared comments, you had mentioned that you are seeing a pickup in some of these strategic alliances. Maybe that is embedded in some of the back and forth we've had with Nate in some of the other Q&A.

Could you talk a little bit about what you are seeing in terms of economics on this mandates? Are these just longer-lived assets that are slightly lower in terms of fee rates? Or how is this working, if you will?

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

Well, at the highest level, the trend represents just a kind of obvious move toward greater efficiency. Think global institutional clients and intermediaries with very large pools of assets. And just the increasing challenge of overseeing numerous managers is in itself a reason for concentrating relationships. Obviously also a desire to have certainty and comfort around operational and legal due diligence items is also driving this concentration.

But I think there is an important strategic component, which is -- which relates to these large global institutional clients wanting to have flexibility and choice around a range of alpha-oriented products. And AMG is very, very advantaged in this respect because we have the broadest array of independent alpha-oriented products, especially in global equities and alternatives.

So of course, there is an effort on our part with our Affiliates to coordinate and offer the efficiency advantages that an integrated firm can provide. But if you think about over time what the competitive dynamics are, yes, scale matters, and large integrated firms have an advantage in that respect because they can more easily coordinate among their products.

But ultimately, the most important competitive dynamic is going to be around true alpha generation and the broadest set of differentiated sources of alpha. And on that basis, we, together with our Affiliates, are enormously advantaged and well positioned.

Maybe Nate, you can address the more specific question around how some of these mandates -- what the economics can be, although the answer is it's quite broad.

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**Nate Dalton** - *Affiliated Managers Group, Inc. - President and COO*

Yes -- so I agree with all that. I think the way we think about this is there is a range. At one end of the -- and the easiest to execute at one end is a bit of simple coordination and making the lives of clients and intermediaries a bit easier in accessing return streams. And we do that many, many places right now.

At the other kind of extreme, and as Sean said, our Affiliate group, we have the largest collection of these truly outstanding return-oriented streams. And the challenge for the intermediaries or the large-end clients is how do you get those streams into portfolios. How do they do that both efficiently -- they want to get that done efficiently -- but ultimately they need something that's effective in the way they produce it to their end clients. So that has got both the performance bit, but also can we make the servicing and the oversight of the products, etc., and operational infrastructure. Can we make that all work easily for them across their entire platforms or across their entire client bases in the case of an intermediary? And so that's kind of the continuum.

The point on fees, I do think there can be fee dynamics relative to these large-scale mandates, especially the large scale multi-product. We are talking across many things. But the other related point is the effectiveness with which both we can bring products to market, but also the effectiveness with which they can access those products creates margin benefits on both our side and their side, which ultimately inures to the benefit of the end client.

You have to think about it not just on fees, but you have to also think about it in terms of the benefits in both kind of efficiency in doing it and the margin benefits there as well as well as effectively getting them onto the portfolios.

**Operator**

Ladies and gentlemen, that is the end of our time for questions. I will turn the floor back to Mr. Healey for any final comments.

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

Thank you again for joining us this morning. We are 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 investors. We look forward to speaking with you again in April. Thank you.

**Operator**

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