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Affiliated Managers Group's (AMG) CEO Jay Horgen on Q3 2019 Results - Earnings Call Transcript

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Q3: 10-28-19 Earnings Summary

Press Release SEC *10-Q* *Slides*

EPS of $3.16 beats by $0.02 | Revenue of $549M (-8.70% Y/Y) beats by $1.9M

Earning Call Audio

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Affiliated Managers Group, Inc. (NYSE:AMG) Q3 2019 Earnings Conference Call October 28, 2019 8:30 AM ET

Executives

Jay Horgen - President & CEO

Tom Wojcik - CFO

Anjali Aggarwal - VP, IR

Analysts

Chris Shutler - William Blair

Craig Siegenthaler - Credit Suisse

Alex Blostein - Goldman Sachs

Ben Herbert - Citigroup

Dan Fannon - Jefferies

Mike Carrier with Bank - America Merrill Lynch

Operator

Greetings and welcome to the AMG Third Quarter 2019 Earnings Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions]. As a reminder, this conference is being recorded. I would now like to turn the conference over to your host, Anjali Aggarwal, Vice President, Investor Relations for AMG. Thank you. You may begin.

Anjali Aggarwal

Thank you for joining AMG to discuss our results for the third quarter of 2019. 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 this call.

AMG will provide on the Investor Relations section of its website, at ir.amg.com, a replay of the call, a copy of the announcement of our results for the quarter, and a reconciliation of any non-GAAP financial measures that are not announced on this call, to the most directly comparable GAAP financial measures. As a reminder, we have also included an updated investor presentation on this section of our website. AMG encourages investors to consult the Investor Relations section of its website regularly for updated information.

With us on the line to discuss the company's results for the quarter are Jay Horgen, President and Chief Executive Officer; and Tom Wojcik, Chief Financial Officer.

With that, I will turn the call over to Jay.

Jay Horgen

Thanks, Anjali, and good morning everyone. As macro factors continue to fuel uncertainty and volatility in markets, AMG's diversification and unique partnership structure, provides stability and enable us to continue to evolve our business to meet long-term client demand trends. Boutique managers have a proven ability to outperform in more volatile markets, and given their long-term performance track record, our affiliates are well positioned to benefit as client deep differentiated risk adjusted returns that only active managers can provide. More broadly, with AMG's unique competitive advantages built over the last 2five years, we are confident that our business will generate long-term growth and shareholder value.

AMG reported economic earnings per share of $3.16 for the third quarter. Net client cash outflows of $19.7 billion, were driven primarily by certain quantitative strategies across liquid alternatives and global equities, and included a single low fee redemption of $5 billion. As we said last quarter, and as Tom will discuss in more detail, it's important to note that these outflows, had a disproportionate impact on a reported AUM, relative to their more modest impact on our earnings. While we expect outflows in these quantitative strategies to continue in the near term, we anticipate that AMG’s aggregate level of net outflows, will moderate in the fourth quarter, given a number of large institutional and some advisory wins, which are expected to fund by year end.

Notwithstanding our near term flow results, we are well positioned for strong organic growth over time. AMG is diversified across a broad array of strategies and active management, including a significant position in product areas currently benefiting from secular client demand trends. I want to take a moment to discuss these growth areas within our alternatives, multi-asset and fixed income categories. The first is our illiquid managers, Pantheon, EIG and Baring Asia, which combined, account for nearly 20% of our run rate EBITDA, and are benefiting from record levels of client outpatient to private market.

Of these, Pantheon is the largest and most diversified, generating two thirds of our EBITDA contribution from the liquid. Pantheon is a world class private market solutions provider, offering clients a diverse array of primaries, secondaries, and co-investment across private equity, infrastructure, real assets, and private debt on a global basis. This business continues to grow and its earnings stream is highly stable, given that nearly all of its revenue is fee based and tied to committed capital.

In addition, EIG and Baring Asia offer unique exposure to fast growing segments within private markets. EIG is a leader in energy, renewables and infrastructure investing globally. While Baring Asia is one of the largest independent private equity and real estate firms, focused on Asian markets. In addition to fee related earnings, EIG and Baring Asia have significant upside potential from a growing performance fee opportunity. Collectively, our private markets affiliate manage nearly $100 billion in assets, and have generated over $20 billion of net inflows over the last two years. These businesses continue to drive innovation in new structures and solutions, making private markets more accessible to clients globally.

Second, within our multi-asset and fixed income categories, AMG is benefiting from strong secular tailwinds in wealth management space through four affiliates, Veritable, Baker Street, Welch & Forbes, and MyCIO that manage nearly $50 billion in ultra-high net worth assets. In addition to the growing concentration of investable assets in this area, wealth clients are actively transitioning from legacy manager selection model, towards holistic advice and portfolio construction. Our affiliate strong client relationships, solution orientation and focus on innovation, are driving consistent inflow and earnings stability.

In addition, we have a meaningful exposure to a number of attractive areas across traditional and alternative fixed income, through both growth initiatives at existing affiliates such as GW&K and AQR, as well as new investments in market leading affiliates such as Capula and Garda, both specialists in relative value fixed income. In aggregate, traditional and alternative fixed income accounts for approximately $70 billion in assets, and provides another growth opportunity in area of strong client demand.

These growth opportunities in aggregate across private markets, wealth management and fixed income, account for approximately 30% of AMG’s EBITDA today, and we expect these areas to play an even more significant role in our business over time. Our fundamental managers across active equities and liquid alternatives, including Genesis, Harding Loevner, Tweedy Browne, ValueAct, Veritas, and Yacktman, continue to build on their strong long-term track record, and have further distinguished themselves as asset dispersion has increased, particularly in less efficient markets such as small cap, emerging markets, and global equity. These strategies represent approximately 50% of our EBITDA. And given improving performance against the backdrop of volatile markets, alongside capacity reopening in a number of strategies, we are confident in our long-term organic growth prospects across our fundamental equities and liquid alternative manager.

And finally, we continue to believe strongly that quantitative strategies across long-only equity and liquid alternatives, play an important role in client portfolios, and we expect these strategies to be meaningful contributors to our organic growth profile over time. And while these products account for approximately 30% of our AUM today, given fee rates and ownership levels, they contribute only 10% to our EBITDA.

Stepping back, our core strategy is to generate long-term value by investing in leading independent active managers, through a proven partnership approach, and allocating resources across AMG's unique opportunity set to the areas of highest growth and returns. This strategy has remained consistent, and in the quarter, we made good progress in executing against our strategic plans. Early in the quarter, we completed our investment in Garda, a specialist fixed income relative value manager, with an exceptional performance track record. And we are building momentum in our new investment activities across a broad range of prospective affiliates offering in-demand products.

Our transaction pipeline includes a diverse range of high quality growing independent firms that are attracted to our model, and we are well positioned to structure partnerships that align affiliates to clients and shareholder. Unique ability to evolve and scale our business through new investments, without the risk or cost of integration, is a distinctive competitive advantage. We are dedicating significant resources to this effort, and I'm confident in our ability to continue to generate earnings growth and further diversify our business through additional accretive partnerships over time.

In addition, we continue to work closely with our affiliates by supporting them in the execution of their individual growth strategies, as they position their firms to capitalize on client demand trends. We have worked with our affiliates to seed and launch new products, and enter new regions and channels. And we have partnered together to evaluate and execute on potential lift outs and acquisition opportunities. In other cases, we are collaborating with affiliates that are facing headwinds, to help them position their businesses to achieve the best outcomes for their clients, as was the case with BlueMountain.

We are pleased to have had a good partnership with BlueMountain over the many years, and that we were able to work together to find the best path forward for their clients and employees, and for AMG shareholders. More broadly, consistent with the work we are doing with our affiliates, we are strongly focused on positioning AMG for future growth. And to that end, we have engaged in a number of strategic initiatives in the quarter, to align our resources and talent base with those areas where we can deliver scale and expertise to help our affiliates grow and diversify their businesses.

For example, within our global distribution platform, we have adjusted coverage in certain regions, and reallocated resources to focus on the client that represent the largest growth opportunities for our business, including deploying additional resources towards building strategic relationships with leading institutions and intermediaries that are consolidating their relationships with skilled players like AMG. Leveraging our scale can also take different forms. In certain areas, delivering partnerships with industry leading service providers through our affiliates, can be more efficient and provide better outcomes, particularly where AMG's scale can improve pricing, access and service. For example, we recently partnered with ACA Compliance Group to support affiliates seeking to lower their compliance costs and access a greater breadth of services.

Finally, in the quarter, we have simplified certain elements of our business, reduced operational costs, and taken steps to optimize our footprint. These initiatives will free up approximately $20 million in capital annually, which we will redeploy towards higher growth opportunities in our business. Finally, our entrepreneurial culture remains critical to our success and our ability to adapt ahead of changing industry dynamics. While the environment has been challenging, difficult markets yield compelling opportunities, and we remain confident in the quality and profile of our existing affiliate base, and are actively positioning our business for future growth. AMG's business diversification and unique partnership structure, provides the resources and flexibility to execute on our growth strategy, while consistently returning capital to shareholders.

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

Tom Wojcik

Thanks, Jay, and good morning everyone. AMG reported stable economic earnings per share, and generated strong free cash flow in the third quarter. Despite industry volatility and near term net outflows, our unique business model continues to demonstrate resiliency, as we've positioned for future growth. Net client cash outflows of $19.7 billion, were concentrated in certain quantitative strategies across liquid alternatives and global equities. As Jay said, while outflows will likely continue in these strategies until performance stabilizes, we see fourth quarter aggregate net outflows moderating, notwithstanding year end seasonality, given the number of expected institutional and sub-advisory funding.

As we mentioned last quarter, it is important to understand the difference between flows and their impact on our financial results. In the current quarter, more than 75% of outflows were related to affiliates where we have a minority interest, or in low fee products that collectively make up only 10% of EBITDA, and therefore have a more modest impact on current and future earnings growth.

Turning to flows by asset class. In alternatives, we reported net outflows of 9 billion, driven by certain liquid alternative strategies, and partially offset by positive contributions from illiquid products. As noted, these outflows included a $5 billion low fee currency overlay redemption that was unrelated to performance. While long-term investment performance in liquid alternatives remained strong, with 65% of assets under management outperforming benchmarks over a five year period, more recent performance in this area has been mixed. Certain of our quantitative strategies have been impacted by value factor exposures, while others, for example at Winton and Systematica, are generating strong near term results.

We continue to see outperformance in our fundamental liquid alternatives book, including relative value fixed income strategies at Capula and Garda, both of which are generating solid organic growth, supported by client demand for these unique alpha streams. Overall, we expect liquid alternatives to be a positive contributor to our growth profile over time, as these strategies continue to play an important role in client portfolios.

As Jay mentioned, we also see a steadily growing opportunity in illiquid alternatives, as our affiliates build on existing and new product capabilities, with ongoing fundraising at Pantheon, Baring Asia and EIG in the quarter. AMG's performance in this category is very strong, with 94% of our recent vintages outperforming benchmark on an IRR base. In global equities, consistent with industry headwinds facing the asset class in the third quarter, we saw net outflows of 7 billion across quantitative and fundamental strategies. Overall, our affiliates in this area continue to generate strong long-term performance, as evidenced by the reported increase in global equity AUM outperforming three and five year benchmarks. And particularly, in global fundamental equities, where 83% of AUM, is ahead of benchmark over a five year period.

Additionally, a number of our emerging market equity affiliates, have recently reopened capacity or launched new strategies, and we expect these categories to be a meaningful contributor to future growth. In US equities, net outflows were 5 billion, driven in part by institution insourcing third party mandates. While we saw improvement in the quarter, US equities performance continues to be impacted by our overall value buy.

In multi-asset and in fixed income, we posted nearly 1 billion in net inflows, marking the 11th consecutive quarter of positive flows in this category. Flows were primarily driven by GW&K's municipal bond product, and supported by AQR's innovative systematic fixed income strategy, which continued to generate good flow momentum. This category also includes our wealth management affiliates, which are benefiting from the positive secular trends referenced previously. In aggregate, we remain confident that AMG is well positioned in high growth areas, supported by long-term client demand trends, as well as our affiliate's differentiated abilities to generate durable outflows.

Now turning to our financials. For the third quarter, economic earnings per share declined 8% year over year to $3.16, including $0.02 of net performance fees. Aggregate fees declined 12% to 1.1 billion, driven primarily by lower average AUM. Adjusted EBITDA declined 13% to 206.5 million. Relative to adjusted EBITDA, the decline in economic earnings per share of 8%, reflects a lower share count as a result of continued share repurchases. Jay discussed several initiatives we are taking to position our business for future growth, which in combination with the BlueMountain transaction, will have an impact on our fourth quarter financial results, and I'll touch on that in a moment.

Turning to specific modeling items, for the third quarter, the ratio of adjusted EBITDA to average assets under management, was 10.8 basis points. Excluding performance fees, this ratio with 10.7 basis points. In the fourth quarter, we expect adjusted EBITDA to average AUM, to be between 10.5 and 12.5 basis points. This range is pro forma for the removal of BlueMountain, and includes performance fees of $0.20 to $0.60 per share, as well as onetime costs related to the repositioning initiatives in the quarter, which we expect to have a $0.15 to $0.30 per share impact.

Our shared interest expense was 19.5 million for the third quarter. In the fourth quarter, we expect our share of interest expense to be approximately 19 million. Our share of reported amortization was 68.4 million for the third quarter, and was driven by recent elevated outflow levels, and included 52 million from affiliates accounted for under the equity method. We expect a similar level of amortization in the fourth quarter.

Our effective GAAP tax rate was 24.7%, and our cash tax rate was 21.6% for the third quarter. For modeling purposes, in the fourth quarter, we expect our GAAP tax rate to be approximately 25%, and we expect our cash tax rate to be impacted by a onetime benefit of approximately 50 million related to the BlueMountain transaction. Excluding this benefit, our normalized cash tax rate is expected to be approximately 20%. Intangible related deferred taxes were 3.5 million in the third quarter. And we expect intangible related deferred taxes for the fourth quarter, to be approximately 53 million, resulting from the one-time tax benefit I just mentioned. Other economic items were 1.2 million for the third quarter, and we expect that to be consistent in the fourth quarter. Our adjusted weighted average share count for the third quarter was 50.4 million, and we expect share count to be at or below 49 million shares for the fourth quarter.

And finally, turning to our balance sheet. During the quarter, we paid a $0.32 per share dividend, and repurchased $110 million in shares, reflecting our commitment to consistent capital return. Additionally, we completed our investment in Garda, and received approximately 90 million in proceeds relating to the BlueMountain transaction. We are targeting share repurchases of 100 million or more in the fourth quarter, subject to transaction activity and market conditions.

Our business model generates significant and stable free cash flow, driven by the diversity and quality of our affiliate base, together with our unique revenue share structure, which limits AMG's exposure to affiliate level margin fluctuations. And we will continue to allocate capital to the areas of highest growth and return in our business. At the same time, we continue to maintain a prudent level of leverage, and have repositioned our balance sheet over the last several quarters, extending duration, while maintaining flexibility and capacity, to capitalize on growth opportunities, even in challenging markets.

Given AMG's combination of distinctive, independent affiliates that are well aligned against future client demand trends, our unique ability to make new investments that deliver both earnings and organic growth accretion, our stable free cash flow profile, and our flexible balance sheet, we are well positioned to create long-term value for our shareholders.

And with that, we'd be happy to open it up for your questions.

Question-and-Answer Session

Operator

Thank you. [Operator Instructions]. Our first question comes from the line of Chris Shutler with William Blair. Please proceed with your question.

Chris Shutler

Hey guys, good morning. Could you just talk about the new investment opportunities I guess in the more near term part of the pipeline for the opportunities that do feel more actionable? Are they - how would you, I guess, classify those small or large asset classes more proprietary versus formal processes, et cetera?

Jay Horgen

Great. Thank you, Chris. It's Jay. Yes. Let me just talk about our pipeline broadly and then give you some attributes of it today. Stepping back, our strategy of partnering with excellent firms, has and always will be a cornerstone of our growth strategy. Obviously that's still true today, and we look forward to continuing to grow our business through making new investments. The other thing I would just say is, the management team, including me, are spending more of our time on new investments. My background obviously is in M&A. it's something that I'm excited about and this extra effort and resources to the effort, we think will continue to drive additional transactions over time.

We're building momentum in our pipeline. We see good diversity of types of businesses, all high quality, all attracted to our model. I would characterize it as global in nature. I would also characterize it as all sizes. What's interesting about investing in growing firms is, obviously it's not just the capital you put out in a single transaction. It's the growth that you can see from the business, both because these are entrepreneurial businesses, but also to the extent that they're in front of significant client demand trends that can add significant upside to these businesses.

Our unique business model puts us in an enviable position where we can, through continued successful execution, scale our business with little or no integration risk, allowing our affiliates to remain autonomous to that unique competitive advantage of AMG. We can simultaneously grow our earnings and enhance our long-term growth profile through new investments. We can also invest alongside of our affiliates, both in distribution capabilities, but also invest in their individual growth opportunities through allocating capital to affiliates.

So all of those things come from a successful new investment strategy. And when we look at it today, we do see momentum in both the near intermediate and longer term pipeline. Most of what we are - most of what is in our pipeline today is proprietary, coming through long-term relationships that started many years ago, whether that was relationships with - that I started when I was in new investments, or with Sean or Nate. All of those relationships have been transitioned now.

And we see that the proprietary conversation that we're having, really is important to our process because we are sorting through due diligence, and we are also sorting through the partnership itself as we have these long-term relationships, get to see businesses evolve, and they get to understand our business model better. So when it comes time, and I think we've said this before, structure and pricing is only part of the partnership. It's really the long-term autonomy and alignment of interest that we offer through our model that really attracts these firms to us

Operator

Thank you. Our next question comes from the line of Craig Siegenthaler with Credit Suisse. Please proceed with your question.

Craig Siegenthaler

Thanks. Good morning everyone.

Jay Horgen

Morning.

Tom Wojcik

Morning.

Craig Siegenthaler

So first just on flows, we know AMG tends to have tougher 4Q, just given several seasonal and cyclical factors. And I heard the commentary in the prepared remarks that net outflows showed moderate or improved. I wasn't sure if this meant total flows, or if this meant sort of core flows after backing out some of those seasonal and cyclical factors.

Jay Horgen

So a good question, Craig, and we’ll clarify. I’ll let Tom take that one.

Tom Wojcik

Thanks, Craig. So maybe I'll just kind of recap flows overall in the quarter, and then try and give you a little bit of color on what we see on the horizon, and address your seasonality question. As you recall, coming into the quarter on our July call, we talked about where we saw flows landing overall in the third quarter. And really excluding that one large low fee currency overlay mandates that I referenced, outflows for the quarter were pretty flat against last quarter. Again, more than 75% of the outflows that we saw came from certain quant products, most notably in liquid alt absolute return strategies. And these flows were on a base that today is only contributing 10% of our EBITDA.

So given the combination of fee raise and ownership levels, and the affiliates from products that contributed the outflows, the impact on our earnings is generally going to be much less than what the headline flows suggest. We also continue to believe that quantitative strategies are going to be important in terms of their contribution to future growth, and we're already seeing very strong performance in certain affiliates in that area, including at Winton and Systematica.

We did also see some outflows in the quarter in active equities, primarily driven by global risk off trends. But importantly overall, performance in these areas continued to strengthen, and we have more than 83% of our fundamental active equities products now outperforming benchmarks over the five year period. And we've also seen some incremental capacity come online recently in some of our high performing EM managers. So that's an area overall where we see a lot of future upside potential.

In terms of upside, Jay also talked about illiquid alternatives, where we're seeing strong fundraising in Pantheon, EIG, and Baring Asia. And the combination of their performance and current high levels of client demand, continue to point to future growth in that area. And we saw 11 consecutive quarter of inflows in our multi-asset and fixed income area. To give you some color on the go forward, as we think about the flow picture near term, notwithstanding certain quant headwinds, we do have some sizable institutional and sub-advisory mandates that we expect to fund in the fourth quarter. We think that these will more than offset the normal seasonal headwinds that we see around tax loss selling, and around illiquid alternative lockup periods that hit toward the end of the year.

Obviously we don't have perfect clarity on how those trends will play out, but broadly speaking, we feel pretty good about that. So taken together, we expect to see outflows moderate in the fourth quarter versus the levels we've seen the last couple of quarters. And importantly, going forward, we see very strong performance momentum in a number of areas in our business, and we continue to believe in the long-term organic growth profile of our platform, and the alignment that we're seeing between long-term secular client demand trends and our affiliates diverse product offerings.

Jay Horgen

Yes. And let me just add, and that was good detail from Tom. I'll just summarize by saying, look, even beyond this next quarter, we see continued growth in private markets, wealth management and traditional and alternative fixed income, as we've said in our prepared remarks. In addition, I don't want to underscore - I do want to underscore that our performance is improving across our fundamental equity affiliates - equity and liquid alternative affiliates, as market volatility has increased. So we view this as a positive as we look forward to 2020. In aggregate between these growth opportunities and improving performance at our fundamental managers, we see that that represents about 90% of AMG’s EBITDA.

And then the last thing I would say is, when you look at the fourth quarter, and we talked about institutional and sub-advisory wins, some of those wins are in quantitative products. And so that's an important thing to note as we would say more broadly, these products are very important to client portfolios, and we're seeing that come through in the fourth quarter.

Operator

Thank you. Our next question comes from the line of Alex Blostein with Goldman Sachs. Please proceed with your question.

Alex Blostein

Hey everyone. Good morning to. A question for you guys around EBITDA yield on assets, both in the fourth quarter and over time. And I think Tom, in the guidance, you guys talked about 10.5 to 12.5, but that included performance fees and some of the reposition expenses. I think the long of that will be fairly close to the - kind of the base, just the management fee EBITDA yield. So I guess, part one, does that sound right? and two, given the kind of mix shift in the business between affiliates and products, and obviously the ownership stakes are different, how do you guys think about that, call it 10, 10.5 basis point yield evolving over the next of couple years

Tom Wojcik

Sure. So why don't I start, and then maybe Jay can address sort of the end of your question in terms of just the forward trajectory. First off, there were a couple of things when we talked about guidance in terms of that 10.5 to 12.5 basis point range, just to make sure that you have in your numbers. The first, as you mentioned, was a performance fee range of 20 basis points - of $0.20 to $0.60 per share. But we also gave you a little bit of color on our expectations around some expenses related to some of the strategic initiatives that Jay walked through. That will be about $0.15 to $0.30 per share. So that’s embedded into that guidance. So you can kind of think about getting to more of a core run rate if you backed out some of those one-time expenses that we gave you color on.

More broadly, if you actually look at kind of stability in our fee rates and sort of stability in that overall ratio, you have a handful of things that are going on. First, we've talked about the fact that our flows overall have really been influenced by areas where we have either lower fee products, or minority ownership positions. So while headline flow numbers have been rather sizable, the actual impact that we've been seeing on EBITDA, has been much less, particularly over the course of the last couple of quarters.

And then as we go forward, we talked a lot about areas of our business that are very strong contributors to our EBITDA, that are either growing now in terms of the illiquid area, the wealth management area, and the fixed income areas that Jay spoke about, or that have very strong performance, and we believe are well positioned against client trends for future growth in the fundamental equity space.

Jay Horgen

Yes. the one part of your question that Tom picked up on, and I'll just state more flatly, which is, as we look forward, a growing contribution of our business is coming from the private market, the wealth management, multi-asset and fixed income areas. And that does not only put a level of stability on that number. Those businesses are growing. But also if you look past, or look into the kinds of assets that we're raising there, you see very long duration, very sticky asset levels. And so we do see that as a positive. So it's hard to capture it in just a number, but you're seeing the quality of that number go up.

Operator

Thank you. Our next question comes from the line of Bill Katz with Citi. Please proceed with your question.

Ben Herbert

Hi. Good morning. It's Ben Herbert on for Bill. Thanks for taking the question. Just was hoping we could go back to liquid alt and global equities, and definitely appreciate the commentary on you saw contribution. But can you just help us kind of ring-fence the remaining AUM at risk there, and maybe some sort of timeline on deposit outflow expectations there over kind of the near term horizon?

Jay Horgen

Yes. So thanks, Ben. Maybe I'll use that question to answer it in a lot of many different levels. So our efforts have been localized in the quantitative liquid alternatives, and long only equity quantitative strategies. And we did say, and I just mentioned a minute ago, that those products are seeing inflows in certain areas, especially with large institutional clients. Some of those wins are going to show up in our fourth quarter, and we mentioned that. So the attractiveness of these products are very much apparent in even our near term pipeline.

Our largest manager of course of these types of strategies is AQR, and I'd like to just maybe address that more broadly. As I did last quarter, and I will say it again, and probably have to say it again in future quarters, AQR is very much a highly diversified business with 180 billion in AUM. Just to remind everyone that we made that initial investment with the business with 12 billion, and AQR has grown and diversified its business across several different distinctive business lines, including long only quantitative equities, systematic fixed income, absolute returns and total return alternative strategies. And within each business line, they have multiple products that address a range of client needs and risk tolerances.

Growing from 12 billion when we made the investment, to where we are today was not a straight line, as many of you know, and a number of you have the history here. We've had a number of other periods of softness that only to come back stronger after that period of softness. We continue to believe in their ability to generate excellent long-term investment returns, given their proven culture and process, the strength of their leadership team, and their multi-decade track record of business success. So there's a lot to be positive here, and we are very much believe in that.

And as I said, the outflows have been localized in certain products, but when you get beyond those products, you see some really great performing products, including risk parity, defensive equities, fixed income. They continue to run their business at scale, and invest in the future. They have a number of opportunities that are emerging growth opportunities, including the fixed income strategy that I mentioned earlier, but also ESG and tax managed, tax aware strategies. These all have significant growth opportunities because the market opportunity is very scalable, and they are applying their technology and process to these markets. So we feel that the opportunity is significant, the option value is very high there.

We're very much in support of what they're doing in their business. Cliff, John, David, and the rest of the senior partners, are focused and fully aligned as majority holders of the firm. It's a very entrepreneurial firm. We're proud to be aligned with these partners. So the last thing I would say is, we're very confident in their ability to manage their business, to sustain profitability and generate long-term growth. And as I said, we're very aligned with them. So longer term, we see growth returning to AQR in the near term even, but over the long-term especially.

Operator

Thank you. Our next question comes from the line of Dan Fannon with Jefferies. Please proceed with our question.

Dan Fannon

Thanks. Good morning. Just on the reallocation of resources, Jay, you walked through a number of things. It sounds like real estate consolidation, some compliance, things that you - services you can combine for your affiliates. But - and I think you said 20 million of capital that’s freed up from this I guess. Is this going into new investments in terms of the priorities? I just want to kind of walk through that again in terms of areas that you specifically have changed, and then what you - where you're kind of reallocating those resources or capital to?

Jay Horgen

Yes. Thanks, Dan. Good question. Let me just start by stepping back and tell you what we're trying to do here. On the call, we sort of flatly stated our strategy is to generate long-term value by investing in leading active managers, as you know, through a proven partnership approach, and then allocating our resources to our opportunity set, to the areas of highest growth and return. There are a couple of areas that follow from this. There’s a couple of points to follow from this.

First, we're going to focus on our strengths and competitive position, which does include new investment. It’s our primary use of capital. Second, we're going to continue to build and position our business for growth, which really means delivering our scale to our affiliates, either through the service offering of strategy distribution capital and other resources, or more resources in new investments and other growth areas. So really what we're doing is pivoting using our resources, our talent base, our entrepreneurial culture and aligning that with growth opportunities, which could include growth opportunities for existing affiliates, growth opportunities in new affiliates.

All of that said, in periods where we have excess capital, we’ll be disciplined in returning capital to shareholders. The one other thing I would say is, maybe just while we're on the point of capital, I might turn it to Tom and just talk a bit about our capital strategy.

Tom Wojcik

Sure. So if I think about capital management overall for AMG, as you know, the diversification and unique structure of our partnership agreement, enables us to generate significant and predictable unencumbered free cash flow. And we have a lot of flexibility in how we allocate that capital as a result. As Jay talked about a couple of times, we continue to believe that the highest and best use of our capital over the long-term, is through new investments, where our unique model enables us to partner with affiliates with little or no integration cost or risk.

These investments deliver immediate diversification and earnings accretion, and simultaneously enhance our organic growth profile, including adding immediately saleable products in areas of future client demand. We'll also continue to return excess capital through share repurchases and dividends, as we've done in the past. And since 2017, we've reduced our diluted share count by more than 12%, in addition to paying out nearly 160 million in cumulative dividends.

As I mentioned, we repurchased $110 million in shares in the third quarter, slightly ahead of the pace of the guidance we gave you in July. And I also noted that we expect to repurchase 100 million or more in shares in the fourth quarter, and that that amount could vary based on a variety of factors. As you know, we completed the BlueMountain transaction earlier this month, and received approximately 90 million in proceeds. And we have a lot of confidence in our business and our future growth trajectory. So we feel good about buying back our stock at current levels, and we'll continue to monitor deal activity, market conditions and leverage levels, as we execute on our capital plans going forward.

Operator

Thank you. Our next question comes from the line of Mike Carrier with Bank of America Merrill Lynch. Please proceed with your question.

Mike Carrier

Good morning, and thanks for taking the question. Maybe just one more on M&A. can you provide us with an update, just on balance sheet capacity, just given some of the things that you guys have done over the past few years in deal activity hasn't been as active? And I guess more on the debt side, I guess just particularly given your equity evaluations in the industry being a little bit more challenged. And then also just priorities on the asset management side versus the wealth management side in terms of the types of transactions. Thanks.

Tom Wojcik

So maybe I can start on the capacity side and then Jay can answer the second part of your question. So from a capacity perspective, as I just mentioned, our business generates a substantial amount of unencumbered free cash flow. So first and foremost, we have that as a resource as we're looking at new investment opportunities, and obviously looking to fund out of free cash flow.

In addition, as you mentioned, we have taken actions over the course of the past several quarters and really over time, to optimize the shape of our balance sheet. We are an A rated company. We have $1.25 billion in revolver capacity, as well as in aftermarket ability to issue stock for transactions as well. So from a flexibility perspective, we have a tremendous amount of flexibility financially to be able to execute against the opportunities that we see in front of us.

Jay Horgen

Yes. the other part of your question, and I appreciate you asking another new investment question, because I do want to talk a bit about pricing in the market and then a bit more color on the types of businesses that could fill in from the - my prior answer. So just on pricing, and I think everyone knows this about our model is, we partner with affiliates, and we are only purchasing a portion of the equity at the time of the initial transaction, which really takes some of the weight off of pricing over longer, because over periods of time, the equity that is retained is expected to be worth more than the equity that we initially purchased.

We also try to find ways to structure transactions so that value really is a concept over time, and therefore the economics to AMG is consistent with an opportunity cost of capital that we see across our other opportunity set, including repurchasing our shares. So we really are investing in businesses through our partnership model, that cost of capital consistent or better, if you will, than our own repurchase of shares.

As it relates to the types of transactions that we're looking at in our pipeline today, I would mention, similar to the growth opportunities we have in our business, we have a number of opportunities in the private market, the number of opportunities in fixed income alternatives. Those are businesses that are in our pipeline today, and we're moving them along. We also continue to look at emerging markets as an opportunity thematic, and ESG impact investing, again another growth area for us. And so we are seeing those types of opportunities again across the size range.

Operator

Thank you. Ladies and gentlemen, that concludes our question-and-answer session. I’ll turn the floor back to Mr. Horgen for any final comments.

Jay Horgen

Thank you all again for joining us this morning. And as you heard, through our unique business model, along with our ability to execute against our strategy, we are confident in our ability to generate long-term sustainable growth and create shareholder value over time. We look forward to speaking with you next quarter.

Operator

Thank you. This concludes today's teleconference. You may disconnect your lines at this time. Have a wonderful day.