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Q4 2024 ACADIAN ASSET MANAGEMENT INC EARNINGS CALL

EVENT DATE/TIME: February 06, 2025 / 4:00PM UTC

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CORPORATE PARTICIPANTS

- **Melody Huang** *Brightsphere Investment Group Inc - Senior Vice President, Director of Finance and Investor Relations.*
- **Kelly Young** *Acadian Asset Management LLC - President and Chief Executive officer*
- **Brendan Bradley** *Acadian Asset Management LLC - Chief Investment Officer, Director, Executive Vice President, Member of the Leadership Team*

CONFERENCE CALL PARTICIPANTS

- **Operator**
- **Kenneth Lee** *RBC Capital Markets - Analyst*
- **Anna Lee** *Morgan Stanley & Co. LLC - Analyst*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Acadian Asset Management Incorporated earnings conference call and webcast for the fourth-quarter 2024.

(Operator Instructions) Please note that this call is being recorded today, Thursday, February 6, 2025, at 11:00 AM Eastern Time.

I would now like to turn the call over to Melody Huang, Senior Vice President and Director of Finance and Investor Relations. Please go ahead, Melody.

Melody Huang *Brightsphere Investment Group Inc - Senior Vice President, Director of Finance and Investor Relations.*

Good morning, and welcome to Acadian Asset Management Inc.'s conference call to discuss our results for the fourth quarter ended December 31, 2024.

Before we get started, please note that we may make forward-looking statements about our business and financial performance. Each forward-looking statement is subject to risks and uncertainties that could cause actual results to differ materially from those projected.

Additional information regarding these risks and uncertainties appears in our SEC filings, including the Form 8-K filed today containing the earnings release, our 2023 Form 10-K and our Form 10-Q for each of the first, second and third quarters of 2024.

Any forward-looking statements that we make on this call are based on assumptions as of today, and we undertake no obligation to update them as a result of new information or future events. We may also reference certain non-GAAP financial measures. Information about any non-GAAP measures referenced, including a reconciliation of those measures to GAAP measures, can be found on our website, along with the slides that we will use as part of today's discussion.

Finally, nothing herein shall be deemed to be an offer a solicitation to buy any investment products.

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Kelly Young, our President and Chief Executive Officer, will lead the call. And now I'm pleased to turn the call over to Kelly.

Kelly Young *Acadian Asset Management LLC - President and Chief Executive officer*

Thanks, Melody. Good morning, everyone, and thanks for joining us today. As I take on the role of CEO of Acadian Asset Management Inc., I'm mindful of the incredible journey that has brought us here. Acadian has been around for nearly 40 years. And for most of that time, we've been under the umbrella and brand name of another holding company, but today marks the first time that Acadian releases earnings as a stand-alone company.

Our firm has been built on an impressive performance track record through various market cycles. We have a stellar reputation among institutional investors, and we're the only stand-alone publicly traded systematic manager. The BrightSphere chapter closed at the end of last year. And today, I'm delighted to share Acadian's results for the fourth quarter and to update you on our long-term growth strategy.

Since this is the first Acadian's earnings call, I'll also introduce you to Acadian's CIO, Brendan Bradley, and Brendan will walk you through our investment performance. Finally, Melody Huang will close with an update on our capital allocation. And after my closing remarks, we'll move to Q&A.

I'm happy to report that we ended 2024 on a high note. During Q4, AAMI achieved the highest level of quarterly ENI EPS in the firm's history. ENI per share was $1.30 compared to $0.77 in the fourth quarter of 2023. The 69% increase in ENI per share compared to the year ago quarter was primarily driven by 50% growth in ENI.

And ENI for the fourth quarter of 2024 was $49 million, a $16 million increase from prior year, primarily driven by higher ENI management fee revenue and higher incentive fees. Adjusted EBITDA of $73 million was up 41% from Q4 of 2023.

Higher AUM from both market appreciation and investment returns over the last 12 months also drove the full year 2024 ENI and adjusted EBITDA increase. Acadian's 2024 ENI was $106 million, and adjusted EBITDA was $177 million for the 12 months ended December 31, 2024, a 40% and 32% increase, respectively, from the prior year.

Record ENI EPS of $2.76 for the full year represented a 55% increase compared to 2023 and was additionally driven by the company's accretive share repurchases. Net client cash flows for the fourth quarter of 2024 were positive by $900 million, as Acadian continued to produce consecutive quarters of net inflows.

Total positive NCCF were $1.8 billion in 2024, the first positive annual net flow since 2019, which was driven by Acadian's highest ever gross sales year of $21 billion in 2024. This success is a testament of our proven investment process as well as Acadian's world-class investment and distribution teams.

As a systematic investing pioneer, Acadian was among the first firms in the world to apply data and technology to the systematic evaluation of global assets. This edge enables Acadian to deliver strong risk-adjusted returns that help our clients meet their long-term investment goals.

Now let me introduce you to our Chief Investment Officer, Brendan Bradley, who's going to walk you through Acadian's investment performance this quarter.

Brendan Bradley *Acadian Asset Management LLC - Chief Investment Officer, Director, Executive Vice President, Member of the Leadership Team*

Thanks, Kelly. While markets were mixed in Q4, with much of the equity world losing value, the US market continued its strong year. Around the globe, equities did well with most major markets realizing double-digit returns in local currency. US high-yield and investment-grade bonds had a positive year, as credit spreads tightened and yields rose.

Overall, MSCI World was up 19%, while EV was up 4% and MSCI Emerging Markets was up 8% in dollar terms. US equities led the way, and within the US, it was the continued strength of a small number of large technology-oriented companies driving the market.

In a year in which over half the world's population went to the polls, equity markets remained resilient and Acadian's investment process delivered strong performance across nearly all our strategies. While Q4 saw most equity markets giving back, our relative performance was particularly strong, adding over 300 basis points in active performance in our core benchmark-oriented strategies. It was a great finish to a great year.

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In 2024, nearly every strategy and every geography added significant value for our clients. Our performance was highly diversified across our universe of signals ended most major strategies between 80% and 100% of our major signal categories contributed positively to value add.

Over the long term, our systematic investment process has created significant value for our clients. In five major implementations comprising the majority of our assets, 100% of our strategies are outperforming their respective benchmarks for the 3, 5 and 10 year windows ending in 2024.

On the consolidated basis, as of December 31, 2024, more than 90% of our strategies by revenue outperformed their respective benchmarks over these 3, 5 and 10 year periods, and more than 89% of our strategies by assets outperformed their respective benchmarks. We generated annualized excess returns of approximately 4% in the most recent five years for our clients. In short, Acadian had another outstanding active quarter and year.

Back to you, Kelly.

Kelly Young *Acadian Asset Management LLC - President and Chief Executive officer*

Thanks, Brendan. Next, I'd like to focus on Acadian's robust distribution platform and team, which helped Acadian generate record gross sales in 2024 and will be a major driver of growth in the years ahead.

For many years, Acadian has had a strong global presence with offices in Boston, London, Sydney and Singapore. We have continued to expand our client and distribution team with over 90 experienced professionals serving more than 1,000 accounts in 40 countries.

The team has established strong long-term relationships with many institutional clients and consultants across both market segments and geographies, leading to a diverse client base with deep relationships dating back many years and in many cases, across multiple strategies.

In tandem, with expanding our distribution capabilities, Acadian's business and product development teams have been focused on increasing our strategy and vehicle offerings in high demand and growing areas where Acadian's systematic approach is particularly well suited, and our current pipeline is very robust.

Looking ahead, there are four key product initiatives in addition to our core strategies that we expect will drive Acadian's future growth. In no particular order, these are our enhanced equity, our extensions equity, systematic credit and equity alternatives platforms, and we've made excellent progress in each of these endeavors.

Our enhanced strategies drove a lot of our asset raising in 2024. Enhanced equity strategies offer risk-adjusted returns with comparatively lower active risk relative to standard active offerings. These strategies can satisfy broader investment demand for lower fee, more consistent return allocations as well as providing alternatives for investors in a $16 trillion passive market, and we expect to see strong momentum in this space going forward.

Our extension portfolios are a form of high-conviction investing, which leverage both long and short positions to increase and manages active views. An example would be our 130/30 product. Acadian has years of extension experience and our alpha is effective for both long and short positions. These strategies have excellent returns and have seen some major new accounts funded recently.

On systematic credit, we have three live track records: US high-yield, global high-yield and US investment grade, with the first offering ceded in Q4 2023. We believe our data infrastructure, systematic platform and culture of transparency will produce excellent results for Acadian's credit products and enable us to access the $3 trillion active corporate credit space. We recently onboarded our first external client assets in credit, and we will continue to incubate our track records.

Finally, Acadian's equity alternative strategies are targeting the multi-strategy hedge fund market, one of the fastest-growing segments of the global hedge fund industry. We are producing high returns with low market correlations and have already gathered external assets in this strategy.

To sum up. Over time, we expect these four initiatives; enhanced, extensions, credit and equity alternatives to help generate sustained growth for Acadian, while we continue to deliver strong returns on our core offerings which include global, non-US, emerging markets and small cap equities.

I'm now delighted to turn the call over to Melody to provide you with an update on capital allocation.

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Melody Huang *Brightsphere Investment Group Inc - Senior Vice President, Director of Finance and Investor Relations.*

Thanks, Kelly. Our balance sheet provides the liquidity and financial flexibility to execute our growth strategy and to enhance shareholder value. At the end of fourth quarter 2024, we have $95 million in cash and $90 million in [seed] investments. With approximately $274 million of long-term debt and nothing drawn on our $140 million revolving credit facility, our debt to adjusted EBITDA ratio was 1.5 times as of 12/31/24, and our net leverage ratio was just 1 times as of 12/31/24.

Over the past five years, we demonstrated a track record of creating significant value to our shareholders through returning $1.4 billion of excess capital. Outstanding diluted shares went down 56% from 86 million in Q4 2019 to 38 million shares in Q4 2024.

Share buybacks were not only highly accretive to EPS growth, but also very tax efficient. As our business continues to generate strong free cash flow, we expect to continue deploying excess capital to support our organic growth and to buy back our shares whenever opportunities come up.

Now Kelly will deliver her closing remarks.

Kelly Young *Acadian Asset Management LLC - President and Chief Executive officer*

Thanks, Melody. Before going into Q&A, I'd like to recap the key points we've covered in this presentation. We're the only standalone publicly traded systematic manager. Our results were outstanding in the fourth quarter and full year of 2024 with ENI EPS growth of 69% and 55%, respectively. $1.8 billion of net cash flows were generated in 2024, the first positive year since 2019.

Our track record is robust. More than 90% of Acadian's strategies by revenue outperformed their respective benchmarks across the 3, 5 and 10 year period. Acadian is currently only trading at around 9 times 2024 earnings, while our peers' average PE multiple is at approximately 14 times.

With exceptional investment performance and several organic growth initiatives well in place, Acadian is positioned for meaningful growth, and I'm truly excited about the opportunities that lie ahead.

This concludes my prepared remarks, and I'll turn the call back to the operator, and we'll be happy to answer any questions you may have.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Kenneth Lee, RBC Capital.

Kenneth Lee *RBC Capital Markets - Analyst*

Hey, good morning, and thanks for taking my question. Just want to get a better sense of whether there are any specific strategies that drove the positive net flows that you saw in the quarter there? Thanks again.

Kelly Young *Acadian Asset Management LLC - President and Chief Executive officer*

Kenneth, it's nice to speak to you again. Yeah, I think what was really exciting about Q4 sales and sales for 2024 was actually the breadth of strategies that we saw clients funding. We've seen clear growth in both enhanced equities and our extension strategies recently, but also saw substantial assets moving into a number of our sort of more traditional core strategies as well where we are gaining market share in a number of areas. So it was pretty broadening in Q4, but with those themes of enhanced extensions being

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sort of two of the more prevalent.

Kenneth Lee *RBC Capital Markets - Analyst*

Got you. Very helpful there. And just on that, and thanks again for the additional details around some of the newer systematic strategies, the enhanced equity, the systematic credit, the equity alternatives. I wonder if you could just help us frame out the longer-term AUM opportunity, specifically for Acadian for these kind of strategies, how much growth could you see AUM grow over time there?

And then somewhat relatedly, what's sort of the fee rate opportunity here? Is it typical fee rate a little bit higher or lower than the average fee rate that you're seeing currently for Acadian? Thanks.

Kelly Young *Acadian Asset Management LLC - President and Chief Executive officer*

Sure. Yeah. We're very pleased, I think, with the progress that we've made in both of those initiatives. And we're in a strong position. I don't anticipate any sort of additional investments really needed for those. We're obviously still in the period of incubating both of those track records of building longer-term tracks there.

But I think, as I said in my prepared remarks, there's a very, very large credit market. Systematic credit is certainly something more newer and more nascent. But we think the opportunities there really could be substantial over time, sort of large mandates that we would expect to see there as we continue to incubate those track records.

On the equity alternatives platform, again, multi-strategy has been a very popular area, I think, over the last few years in the market. And as we continue to build, I think, a strong compelling offering there, again, we think there's sort of substantial upside in terms of AUM growth.

So hard to put sort of firm numbers on those. But again, I think we feel very positive about the opportunities in both of those. With respect to fees, certainly, on the credit side, you would expect to see sort of fees, I think, would in terms of the blended fee that we see for average fees across the business, perhaps a little lower there. But again, I think that's certainly going to depend on the dynamics and where we see flows coming into across the credit business.

Equity alternatives and the hedge fund platform, again, you would see -- expect to see much higher average fees there versus what we see in our more sort of traditional core strategy. So I think we feel very positive about both AUM potential growth there as well as excited about the impact on revenue and certainly for the equity alternatives platform.

Kenneth Lee *RBC Capital Markets - Analyst*

Got you. Very helpful there. And just one last one, if I could squeeze one in. Given the cash on balance sheet, I wonder if you could just talk a little bit more about potential cash needs for this coming year? And I think you have an upcoming note maturity as well, any plans around that? Thanks.

Kelly Young *Acadian Asset Management LLC - President and Chief Executive officer*

Sure. Yeah. As you know -- I mean, the balance sheet is very strong, and the business generates very good free cash flow. So it gives us financial flexibility to whether it's to fund those organic growth strategies, returning capital to shareholders and paying down debt. So we haven't got pre-allocations in mind.

As you noted, the senior note matures next year, we'll start looking into refinancing options for that note. And want to be prudent in terms of maintaining good leverage ratios and financial flexibility there and obviously focusing on what makes most sense for shareholder value.

Kenneth Lee *RBC Capital Markets - Analyst*

Got you. Very helpful. Thanks again.

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Kelly Young *Acadian Asset Management LLC - President and Chief Executive officer*

Pleasure.

Operator

(Operator Instructions)

Michael Cypress, Morgan Stanley.

Anna Lee *Morgan Stanley & Co. LLC - Analyst*

This is [Anna Lee] on for Mike. Just wondering if you could maybe provide some color on composition and the magnitude of the pipeline, maybe frame that how -- frame that versus how it was like three to six months ago? Thanks.

Kelly Young *Acadian Asset Management LLC - President and Chief Executive officer*

Sure. Thanks, Anna Lee. Yeah, we have a very strong robust pipeline, I'd say, across a number of different strategies and a very strong one not funded pipeline that we expect to see those clients fund over the next, I'd say, one to two quarters. We've seen the pipeline pick up quite significantly, I'd say, through the second half of 2024 going into '25.

And again, I think the theme you're going to see are going to be consistent with my prepared remarks earlier that enhanced and extension to two areas where we continue to see areas of focus for clients. But again, our traditional core equity strategies and certainly in some of our more niche areas like small cap are proving very popular and gaining a lot of attention.

So I'd say the pipeline looks incredibly robust, perhaps more robust even than 6 months ago when we felt very positive going into the second half of last year. And as I said, across the breadth of strategies, which, from our point of view, from the diversification point of view is really nice to see.

Anna Lee *Morgan Stanley & Co. LLC - Analyst*

Awesome, thanks.

Operator

And this does conclude our question-and-answer session. I'd like to turn the conference call back to Kelly Young. Kelly?

Kelly Young *Acadian Asset Management LLC - President and Chief Executive officer*

Okay. Thank you, everyone, for taking the time today. Have a good day.

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