July 21, 2015

Via Electronic Filing

Office of Exemption Determinations
Employee Benefits Security Administration
U.S. Department of Labor
200 Constitution Avenue NW
Suite 400
Washington, DC 20210

RE: Low Fee Streamlined Exemption (ZRIN: 1210-ZA25)

Ladies and Gentlemen:

Affiliated Managers Group, Inc. (AMG) appreciates the opportunity to respond to the Department of Labor's (the Department's) invitation to comment on the Low Fee Streamlined Exemption (the Low Fee Exemption) proposed in connection with the Best Interest Contract Exemption and related "fiduciary standard release."[1] AMG is a global asset management company with equity investments in leading boutique investment management firms (its Affiliates). AMG's innovative partnership approach allows each Affiliate's management team to own significant equity in their firm while maintaining operational autonomy. AMG's strategy is to generate growth through the internal growth of existing Affiliates, as well as through investments in new Affiliates. In addition, AMG provides centralized assistance to its Affiliates in strategic matters, marketing, distribution, product development and operations. As of March 31, 2015, the aggregate assets under management of AMG's Affiliates were approximately $638 billion in more than 400 investment products across a broad range of investment styles, asset classes and distribution channels. AMG's Affiliates are all active investment managers and provide investment advisory services directly to, or manage investment products used by, employee benefit plans, participants and beneficiaries, and individual retirement account (IRA) owners. For more information, please visit AMG's website at www.amg.com.

[1] *Proposed Best Interest Contract Exemption,* 80 Fed. Reg. 21960 (Apr. 20, 2015); *Definition of the Term "Fiduciary"; Conflict of Interest Rule – Retirement Investment Advice,* 80 Fed. Reg. 21928 (Apr. 20, 2015).

Introduction

Our Affiliates are registered investment advisors and fiduciaries in the United States, providing investment advisory services to each of their clients, including plans, participants and beneficiaries, and IRA owners, subject to a fiduciary standard which obligates them to act in their clients' best interest. We support the Department's efforts to revise its fiduciary definition to better protect Retirement Investors and ensure that any similarly situated adviser is held to a similar standard. We fully understand the basic concerns underlying the Proposed Regulation that millions of Americans – many of whom lack financial expertise – are now responsible for directing their own investments and must "depend on investment advice for guidance on how to manage their savings to achieve a secure retirement."[2] We strongly agree that Retirement Investors deserve to receive advice that is in their best interests – rather than in the interest of their financial professional – the same type of advice already being provided by AMG's Affiliates.

However, while we support the Department's broad initiative to protect Retirement Investors from imprudent advice, we have concerns with the Low Fee Exemption under consideration. We disagree with the Department's suggestion that a low-fee investment option can stand as a proxy for the exercise of a fiduciary obligation. As discussed below, we do not believe that the Department should offer an exemption directing advisers to recommend low-fee, predominantly passively-managed products. We submit that the Department's consideration of a Low Fee Exemption is based on a faulty premise that encouraging advisers to recommend passively-managed investment products to Retirement Investors is consistent with the best interests of all investors, and will result in superior, risk-adjusted investment results. While certain passive investment strategies have seemingly fared well in the recent past, we are not aware of any research demonstrating that low-fee, passively-managed products would actually maximize retirement savings across market cycles and over longer periods. Indeed, given that the average length of retirement in the United States is nearly twenty years, when evaluating investor returns it is imperative to review returns over a similarly long period. We believe that Retirement Investors and their advisers should have a choice, and that actively-managed investment products, while potentially including higher costs, may present a more beneficial investment option for Retirement Investors. We respectfully submit that the Department should not pursue an exemption that would effectively restrict access to those products.

Finally, we are concerned that, if adopted, reliance on the Low Fee Exemption could have far-reaching, unintended negative consequences for financial markets and the investment adviser industry and that these potential consequences should be thoroughly researched prior to the Department's continued consideration of the proposal.

[2] *Definition of the Term "Fiduciary,"* 80 Fed. Reg. at 21930.

Fiduciaries Should Be Free to Select Appropriate Investments for Their Clients

We do not believe that the Department should offer a prohibited transaction exemption requiring advisers who rely on the exemption to recommend low-fee, predominantly passively-managed products when acting as fiduciaries to plans, participants and beneficiaries, and IRA owners. A fiduciary must consider each Retirement Investor's particular circumstances and preferences, including financial goals, asset levels, current portfolio, and risk tolerance, and select an investment program best suited to the investor. Fiduciaries have responsibility for selecting the appropriate strategies and corresponding products for Retirement Investors among the entire universe of options. In fact, a robust marketplace of financial products, including both passively- and actively-managed products, only exists because of the depth and diversity of interests and circumstances of investors that use them. We believe that offering an exemption which limits the exercise of judgment on behalf of Retirement Investors is contrary to the extension of fiduciary obligations at the core of the Proposed Regulation, and inconsistent with the requirements of ERISA and the interests of the Department, Retirement Investors and their advisers.

In addition, the Low Fee Exemption would encourage and promote an approach for advisers advising Retirement Investors to dismiss actively-managed investment products, not based on their Retirement Investor clients' best interests, but instead on the less onerous obligations associated with the exemption. Advisers, if acting as fiduciaries, should not be bound, nor incentivized to be bound, in their exercise of fiduciary judgment. Importantly, such an approach limits Retirement Investors' access to thoughtful, well-considered investment guidance for the lesser benefit of facilitating constrained and potentially rote advice that cannot fully reflect a Retirement Investor's interests and circumstances and is less likely to succeed in helping them achieve their retirement savings goals. Indeed, Retirement Investors should have the benefit of choice both when it comes to their fiduciaries and the investment products employed on their behalf. A 2013 Investment Company Institute (ICI) survey found that American Retirement Investors appreciate and enjoy the ability to choose among the current diversity of options afforded them.[3]

Directing Retirement Assets Toward Low-Fee, Passively-Managed Strategies Could Potentially Harm Investors

We believe that the Department's consideration of a Low Fee Exemption is based on a misguided view that low-fee, predominantly passively-managed investment products represent a better choice for Retirement Investors, one that is likely to facilitate their achievement of superior, risk-adjusted investment results. We fundamentally disagree with the premise that passively-managed investments are per se in the best interests of investors, based on both the characteristics of those products and on their historical underperformance relative to certain successful actively-managed products. We believe that the premise of this exemption – likely underpinned by certain industry reports highlighting the underperformance of active

[3] ICI, *Our Strong Retirement System: An American Success Story* (Dec. 2013).

management in the recent past – is not only flawed but, if used as the basis for adoption of the exemption, also has the potential to negatively impact investors in their efforts to maximize retirement savings over the long term. Such an approach, where a greater proportion of retirement assets are allocated to passively-managed strategies, could have the unintended consequence of harming Retirement Investors' ability to accumulate savings.

With respect to the characteristics of passively-managed products, the premise that such strategies represent the most appropriate option for all Retirement Investors is, we believe, a misguided one, as passively-managed strategies are less likely to reflect unique investor preferences such as security selection, risk and concentration and inherently take on the risk capacity of their respective indices. Actively-managed strategies allow for a high level of customization, and with the variety of products available, are far more suitable to meeting the particular interests and circumstances of Retirement Investors and their unique financial goals, often including risk management. We also disagree with the premise that the optimal investment strategy may include buying and holding a diversified portfolio of assets calibrated to track global financial markets. We note that global financial markets involve significant risks which passively-managed products, including index and target-date funds, replicate and are often not engineered to address. For example, target date funds typically have sizable allocations to fixed income, particularly as an investor approaches retirement age, which could pose material downside risks in a rising interest rate environment. In this scenario, actively-managed products could have a significant advantage relative to index and target-date funds, as their flexibility would allow them to react accordingly to a changing environment.[4]

With respect to performance, we believe that certain actively-managed investment products present a more beneficial investment option for Retirement Investors and therefore the Department should not pursue an exemption that would restrict usage of those products. While certain passive investment strategies have seemingly fared well in the recent past, we are not aware of any research demonstrating that low-fee, passively-managed products would actually maximize retirement savings across market cycles and over longer periods. Given that the average length of retirement in the United States is nearly twenty years, when evaluating investor returns it is imperative to review returns over a similarly long period. In fact, our research has shown quite the opposite; that careful selection of best-in-class active managers can add meaningful value to investor portfolios over a long period of time. Our comprehensive analysis, incorporating investment returns over the past twenty years from more than 1,200 investment management firms and nearly 5,000 institutional equity strategies comprising approximately $7 trillion in assets under management,[5] demonstrates that careful selection of best-in-class active

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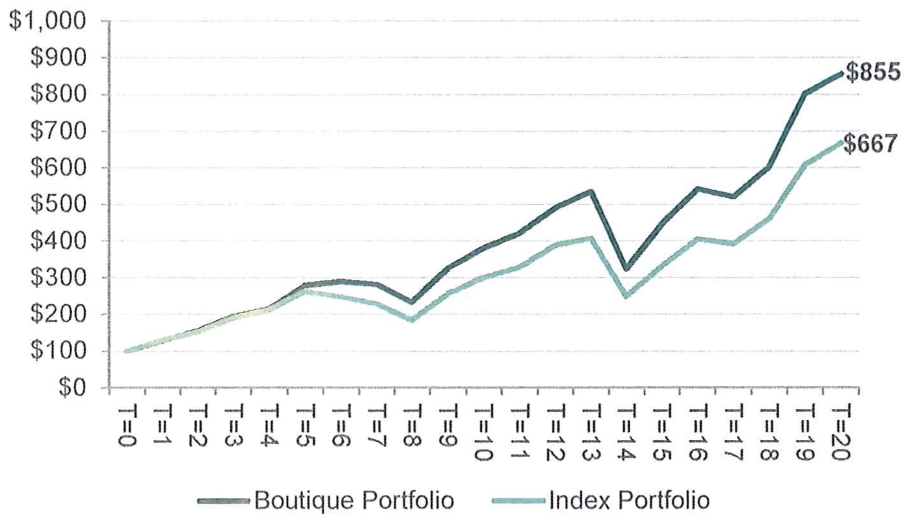
[4] We also do not believe that the exemption is necessary to promote usage of passively-managed products in Retirement Investor portfolios. The Department has, for example, suggested that certain passively-managed target-date funds would be suitable investment options under the exemption. See *Proposed Best Interest Contract Exemption*, 80 Fed. Reg. at 21978. According to the Investment Company Institute, target date mutual fund assets have more than doubled since the end of 2010 to over $700 billion at the end of 2014, with 88% held through DC plans and IRAs, and at the end of 2013, 41% of 401(k) participants held some plan assets in target date funds -- a clear indication that fiduciaries have been allocating a significant portion of retirement money to these strategies. See ICI, *The U.S. Retirement Market, First Quarter 2015* (Jun. 24, 2015); ICI, *2015 Investment Company Fact Book* (2015). Meanwhile, Cerulli Associates estimates that target date funds will represent 34.6% of total 401(k) assets and capture 88% of new contributions by 2019. See *Cerulli: Target-date funds snagging larger share of 401(k) assets,* Pensions & Investments (Nov. 24, 2014).

[5] AMG, *The Boutique Premium: Do Boutique Investment Managers Create Value?* (Jun. 2015).

investment managers can create significant value for investors. For example, in Figure 1 below we illustrate that an investor allocating $100 equally across active strategies managed by boutique investment management firms in 11 product categories at the beginning of 1995 would have seen this portfolio grow to $855 by the end of 2014, as compared to $667 if that same investor had experienced returns matching comparable free indices. Actively-managed strategies, net of fees, would therefore have created 28% excess savings for this investor over a twenty-year period.

Figure 1: Significant Excess Value Created by Boutique Active Investment Managers Over a Long Time Period



Source: AMG proprietary analysis and classification of firms and strategies. Firms represented include AMG Affiliates. MercerInsight® database utilized for return data. Boutique net returns estimated by taking one-year rolling gross returns for institutional strategies during trailing 20-year period ending 12/31/14 less estimated average boutique fee rates based on available data for each product category. Analysis utilized primary indices including MSCI EM, MSCI World, Russell 1000 Value, Russell 1000 Growth, S&P 500, Russell Midcap Value, Russell Midcap Growth, Russell Midcap, Russell 2000 Value, Russell 2000 Growth, and Russell 2000.

With the embedded goal of maximizing Retirement Investors' savings over a long time period without taking unnecessary risk, we posit that the best indication is ultimately value creation, including not only the average (where we have already shown strong active managers can add value), but also the top and bottom tails of a distribution. We believe that careful selection of best-in-class active investment managers can create significant value for investors over long time horizons, more so than choosing underperforming active managers could potentially detract from investors. For example, as described in Figure 2 below, our research illustrates that top-decile boutique investment managers beat indices by 1,133 basis points on an average annual basis after fees over the past twenty years, as compared to the 800 basis points by which bottom-decile boutique investment managers trailed indices.

Figure 2: Top-Performing Active Managers Added Far More Value than Bottom Deducted

	Average Annual Net Value Creation vs. Primary Index (bps)				
	Top 10% Boutique	Top 25% Boutique	Average Boutique	Bottom 25% Boutique	Bottom 10% Boutique
Emerging Markets Equity	1,252	710	283	(230)	(607)
Global Equity	1,324	727	216	(406)	(816)
U.S. Large Cap Value Equity	774	350	7	(378)	(744)
U.S. Large Cap Growth Equity	1,088	486	88	(420)	(819)
U.S. Large Cap Core Equity	713	337	30	(320)	(656)
U.S. Mid Cap Value Equity	873	424	(1)	(465)	(838)
U.S. Mid Cap Growth Equity	1,358	672	70	(585)	(1,073)
U.S. Mid Cap Core Equity	685	335	(10)	(397)	(762)
U.S. Small Cap Value Equity	1,287	709	241	(291)	(763)
U.S. Small Cap Growth Equity	1,818	1,021	356	(406)	(1,019)
U.S. Small Cap Core Equity	1,293	711	274	(247)	(706)
Mean	***1,133***	***589***	***141***	***(377)***	***(800)***
Median	***1,252***	***672***	***88***	***(397)***	***(763)***

Source: AMG proprietary analysis and classification of firms and strategies. Firms represented include AMG Affiliates. MercerInsight® database utilized for return data. Net returns estimated by taking one-year rolling gross returns for institutional equity strategies during trailing 20-year period ending 12/31/14 less estimated average boutique fee rates based on available data for each product category. Primary indices include MSCI EM, MSCI World, Russell 1000 Value, Russell 1000 Growth, S&P 500, Russell Midcap Value, Russell Midcap Growth, Russell Midcap, Russell 2000 Value, Russell 2000 Growth, and Russell 2000.

In addition to the concerns stated above, we submit that the Department's rulemaking authority is better exercised on the basis of investor protection concerns, not on the basis of a favored investment thesis. Fiduciaries, not the Department, should be responsible for selecting the optimal investment strategies and products for their clients. We expect that Retirement Investors with long term savings goals generally seek the most efficient and effective means to reach those goals, balancing all of the benefits and costs of various investment options, and would favor their advisers having access to the entirety of the product marketplace.

Other Potentially Harmful Consequences of the Low Fee Exemption

We are also concerned that reliance on the Low Fee Exemption might have far-reaching, unintended negative consequences for financial markets and the investment adviser industry. Given the sheer size of the U.S. retirement industry ($24.9 trillion in assets as of March 31, 2015, with IRAs representing $7.6 trillion and Defined Contribution Plans an additional $6.8 trillion),[6] even modest use of the exemption could result in a pronounced shift in retirement assets from actively-managed strategies to passively-managed index funds or ETFs. This could significantly increase market correlation, volatility, and ultimately systemic risk in financial markets,[7] the magnitude of which should not be underestimated. For example, just a 1% shift of assets domiciled in IRAs and DC plans from actively-managed strategies to low-fee, passive strategies would set $144 billion of assets in motion, creating additional volatility and increasing market

[6] ICI, *The U.S. Retirement Market, First Quarter 2015* (Jun. 24, 2015).
[7] Rodney N. Sullivan and James X. Xiong, *How Index Trading Increases Market Vulnerability* (2012).

correlation. In addition, such a shift of assets from actively-managed to passively-managed strategies may prompt the consolidation or departure of active managers, leaving Retirement Investors and their advisers with fewer choices to pursue their long term retirement savings goals.

* * * * * *

Conclusion

In conclusion, AMG strongly supports the Department's initiative to protect the best interests of Retirement Investors. However, we respectfully urge the Department not to adopt a Low Fee Exemption, as we believe it is ultimately not in the best interests of Retirement Investors. As proposed, the Low Fee Exemption favors passively-managed investments, yet our research has shown that careful selection of best-in-class active managers can add significant excess value to investment portfolios over time – value that Retirement Investors deserve access to. We further urge the Department to consider the concerns laid out in this letter, as well as all of the potential consequences of such an exemption in greater detail, including the possible commission of a study.

We appreciate the opportunity to provide our views on these issues and would be pleased to provide any additional information. Please contact the undersigned at (617) 747-3349 or Christine Carsman, Senior Vice President and Deputy General Counsel, at (617) 747-3318 with any questions regarding these matters.

Respectfully submitted,

David M Billings

David M. Billings
Executive Vice President and General Counsel

cc: Timothy D. Hauser, Deputy Assistant Secretary for Program Operations, EBSA
Lyssa Hall, Director, Office of Exemption Determinations, EBSA
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The Boutique Premium

Do Boutique Investment Managers Create Value?

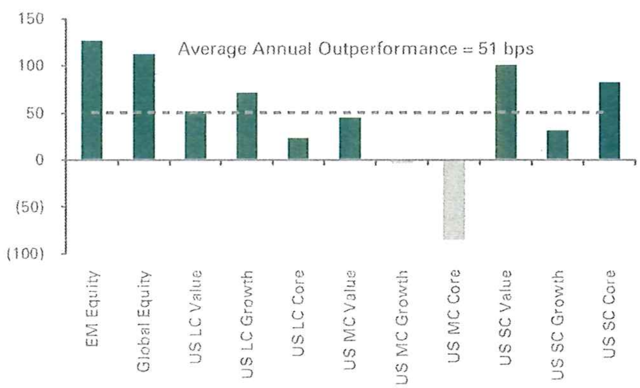
Executive Summary

Boutique active investment managers have outperformed both non-boutique peers and indices over the last 20 years

While the debate over the value of active investment management has intensified in recent years, the outperformance of boutique managers has been overlooked. A proprietary study of institutional equity strategies from 1995 to 2014 demonstrates that:

- **Boutiques significantly outperformed non-boutiques in institutional equity categories**

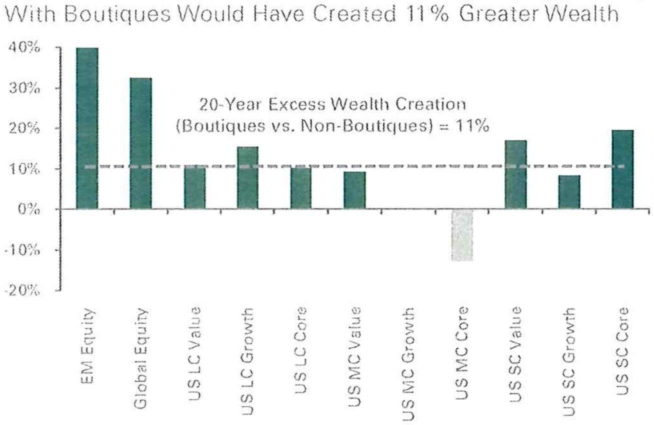
Figure 1: Boutique Outperformance vs. Non-Boutiques: Boutiques Outperformed by Average Annual 51 bps



Source: MercerInsight® database utilized for return data.

- **Investing exclusively with boutiques would have created 11% greater wealth over 20 years**

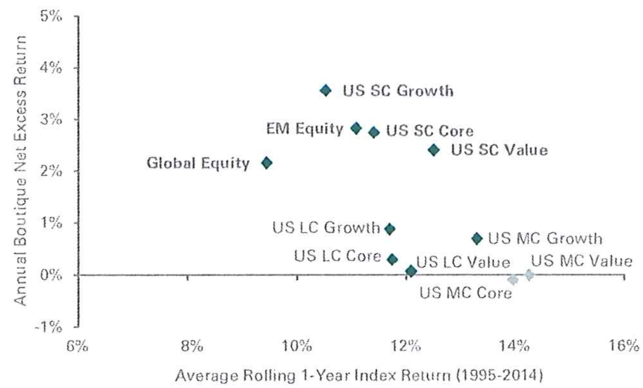
Figure 2: Boutique Wealth Creation: Investing Exclusively With Boutiques Would Have Created 11% Greater Wealth



Source: MercerInsight® database utilized for return data.

- **Boutiques also generated substantial net excess returns versus indices**

Figure 3: Boutique Excess Returns: Boutiques Delivered 141 bps Average Annual Net Excess Returns vs. Indices



Source: MercerInsight® database utilized for return data. Primary indices include MSCI EM, MSCI World, Russell 1000 Value, Russell 1000 Growth, S&P 500, Russell Midcap Value, Russell Midcap Growth, Russell Midcap, Russell 2000 Value, Russell 2000 Growth, Russell 2000.

Core boutique characteristics position them to generate consistent outperformance

Sophisticated investors around the world are increasingly recognizing the ability of focused boutique active investment managers to outperform both non-boutique peers and indices. Several core characteristics of boutiques position them well to consistently outperform in return-seeking asset classes (active equities and alternatives), including:

- Principals have significant direct equity ownership, ensuring alignment of interests with clients
- Presence of a multi-generational management team, fully engaged across the business
- Entrepreneurial culture with partnership orientation, which attracts talented investors
- Investment-centric organizational alignment, including careful management of capacity
- Principals are committed to building an enduring franchise, embedding an appropriately long-term orientation

Seven Key Insights

(detailed analysis beginning on page 6)

1. Boutiques broadly outperformed non-boutiques
2. Top-performing boutiques added more value for clients than bottom-performing boutiques detracted
3. Boutiques created significant value versus indices
4. Top-performing boutiques generated exceptional excess returns versus indices
5. Boutique strategies, on average, had a high frequency of outperforming indices
6. Individual boutique strategies outperformed indices more often than not
7. Boutique outperformance versus indices was persistent

Methodology

Primary Data Sources

The MercerInsight® global database was the primary source utilized for return data in our analysis, given its deep pool of performance data for institutional equity strategies offered by investment managers around the world.

Classification of individual investment managers (and their corresponding investment strategies in the MercerInsight® database) as either "boutiques" or "non-boutiques" was based entirely on AMG's proprietary analysis, utilizing the SEC database and individual manager disclosures for background information on ownership structure, scope of business, and level of assets under management ("AUM").

Scope And Process Of The Analysis

Our analysis incorporated more than 1,200 individual investment management firms around the world and nearly 5,000 institutional equity strategies comprising approximately $7 trillion in AUM. We analyzed rolling one-year returns for the trailing 20-year period ending 12/31/14, across 11 different investment product categories, on a strategy-by-strategy basis. More specific details regarding the data set behind our analysis are as follows:

- **11 investment product categories:** our analysis spanned the 11 broadest institutional equity product categories, as defined by Mercer:
  - Emerging Markets Equity
  - Global Equity
  - U.S. Large Cap Value Equity
  - U.S. Large Cap Growth Equity
  - U.S. Large Cap Core Equity
  - U.S. Mid Cap Value Equity
  - U.S. Mid Cap Growth Equity
  - U.S. Mid Cap Core Equity
  - U.S. Small Cap Value Equity
  - U.S. Small Cap Growth Equity
  - U.S. Small Cap Core Equity

- **Return-focused:** returns were the primary measure of boutique manager value creation utilized in our analysis. Gross returns, a primary metric reported in the MercerInsight® database, were utilized for comparing boutique returns relative to non-boutique returns, given the minimal disparity of fee rates between boutique and non-boutique strategies. Meanwhile, we estimated net excess returns versus indices – incorporating boutiques' available published or "rack" fee rates in MercerInsight® – in order to approximate net value creation for investors.

- **Trailing 20-year time horizon:** our analysis is based on rolling one-year returns over the trailing 20 years ending 12/31/14 (i.e., 20 individual measurement periods based on calendar years 1995-2014). The rolling one-year focus ultimately yielded a larger sample size than rolling three- or five-year returns.

- **Equal-weighted basis:** importantly, our analysis represents a measure of performance by strategy, instead of performance by manager. In order to avoid bias to any one investment strategy, each individual strategy was given an equal weighting when aggregating results for each product category. Duplicate strategies (typically sub-advisory) were excluded from our analysis in order to avoid excessive weighting to any single strategy by double counting, although this had minimal impact on the results given the small number of duplicates broadly observed.

- **Accounting for survivorship bias:** our analysis captured each individual strategy reporting gross returns to MercerInsight® in all 11 product categories at any point during the trailing 20-year period, including deleted strategies (strategies and/or managers no longer in existence, or no longer covered by MercerInsight®). Thus, we minimize the impact of survivorship bias.

Classification Of Boutique And Non-Boutique Investment Managers

Our proprietary classification of over 1,200 individual investment managers and their corresponding investment strategies in the MercerInsight® database as either "boutiques" or "non-boutiques" (Figure 4) was an integral component of the analysis. Boutiques ultimately comprised 68% of the investment managers, but just 47% of the investment strategies captured in our data set.

Investment managers – and their corresponding strategies – were classified as boutiques in our analysis only if they fit each of the following four specific criteria:

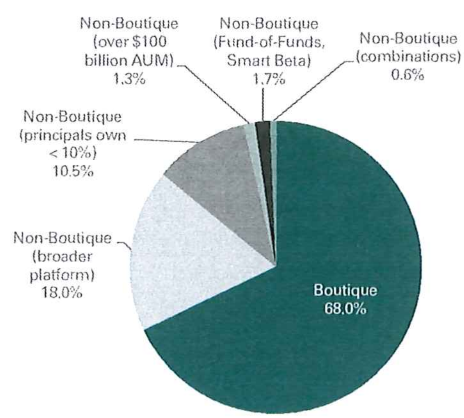
1) **Significant principal ownership:** determined by whether principals held a significant amount of equity in their own firm, defined as a minimum of 10%. The 10% threshold was set to both exclude firms whose principals have received small amounts of equity as part of their annual compensation and to align with a cut-off point in the SEC database (individuals or entities with ownership below 10% appear as either "NA" or "A" in the SEC database). However, principals at the vast majority of boutique investment managers held a significant minority, majority, or 100% of their firms' equity.

2) **Investment management is sole business:** investment managers exclusively focused on investing were the only firms eligible to be classified as boutiques in our analysis. This effectively excluded managers that were part of broader financial services platforms, including banks, life insurers, and wealth managers providing a broad suite of advice-based services.

3) **Manage less than $100 billion in AUM:** investment managers with over $100 billion in AUM were excluded from being classified as boutiques. While some investment managers with over $100 billion in AUM could certainly be considered boutiques, the purpose of this criterion was to increase the objectivity of the analysis while simultaneously eliminating certain firms that have accumulated large levels of AUM by offering a wide variety of products across various asset classes, styles, and geographic regions.

4) **Not exclusively smart beta or fund-of-funds:** managers exclusively offering smart beta or fund-of-funds platforms were removed from consideration as boutiques. Instead, the firms classified as boutiques in our analysis included active managers with teams focused on adding value through distinct investment philosophies and highly focused investment processes.

Figure 4: Classification of Investment Managers:
68% Boutiques, 32% Non-Boutiques



Source: AMG proprietary classification of investment managers in the MercerInsight® database.

Background Industry Debate:
Does Active Management Add Value?

Background Of The Industry Debate

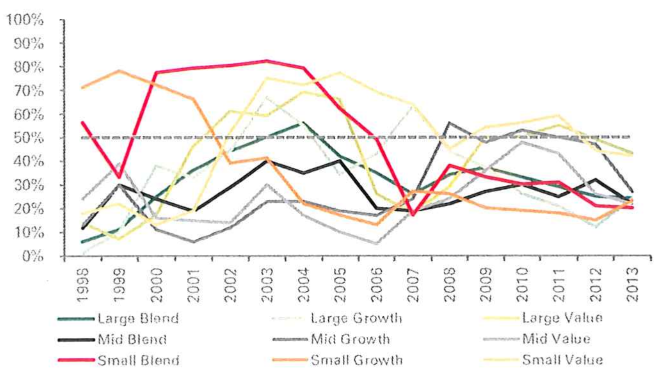
The value of active investment management has been a spirited industry debate for nearly half a century, perhaps beginning in earnest when Michael C. Jensen's study found that mutual funds on average were unable to outperform a buy-the-market-and-hold policy from 1945 to 1964[1]. The debate has intensified in recent years, with many third-party reports characterizing all of active management as flawed.

The Case Against Active Management

Skepticism surrounding the value created by active management has picked up since the Global Financial Crisis, particularly as passive index and ETF providers have weighed in more prominently on the debate.

For example, Vanguard found in a recent study[2] that a majority of active equity managers had underperformed benchmarks (net of fees) in most U.S. open-end fund strategies and for most time periods (Figure 5). The study also found that a majority of active mutual funds in less saturated sectors (e.g., EM Equity) underperformed over longer time horizons after accounting for closed funds.

Figure 5: Vanguard: Percentage of Active Equity Managers Beating Benchmark (Trailing 1-Year Basis)



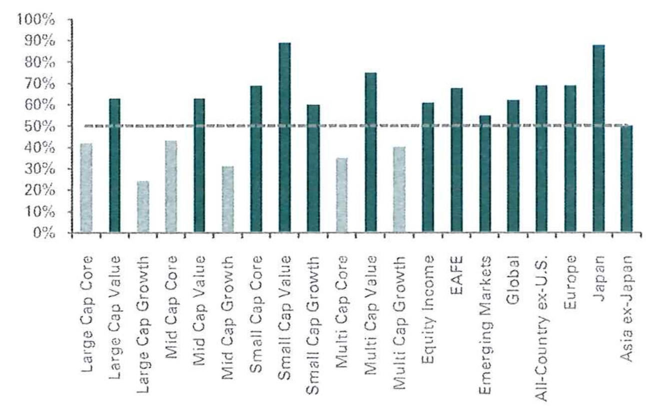
Source: Vanguard, "The Case For Index-Fund Investing," Figure 8.

The Case For Active Management

However, this is not a one-sided debate, as other investment managers have argued that active management adds significant value for clients over various time horizons.

A recent J.P. Morgan Asset Management study[3] found that more than 50% of institutional-focused investment managers outperformed benchmarks in the majority of broad equity product categories over the trailing 5- and 7-year periods.

Figure 6: J.P. Morgan Asset Management: Percentage of Institutional Managers Outperforming Benchmarks (5-Year)



Source: J.P. Morgan Asset Management, "A Search For Intelligent Life In The Active Equity Management Universe," Exhibit 4.

The Middle Of The Road

Still other industry participants, including certain institutional consultants, have recommended a combination of active and passive management. Many of these recommendations incorporate a theory that active management is best utilized in less efficient asset classes.

[1] Jensen, M. (1967). "The Performance Of Mutual Funds In The Period 1945-1964." *Journal of Finance Volume 23 (No. 2)*, 389-416.
[2] Vanguard (April 2014). "The Case For Index-Fund Investing."
[3] J.P. Morgan Asset Management (November 2013). "A Search For Intelligent Life In The Active Equity Management Universe."

Seven Key Insights:
Strong Evidence That Boutiques Have Added Value

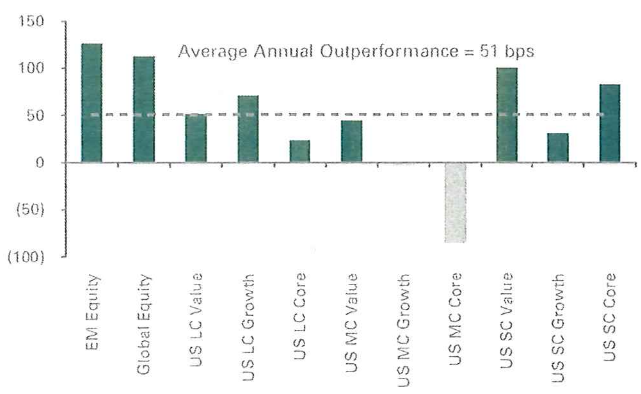
Have Boutiques Added Value For Clients?

Our analysis of institutional equity strategy returns for the trailing 20-year period provides strong evidence that active boutique investment managers generated significant value for clients, both relative to non-boutique managers and to indices. The data also demonstrates that top-performing boutique strategies created tremendous value for clients; that the majority of boutique strategies outperformed indices on a net basis; and that boutique outperformance was persistent. Seven key insights from our analysis are outlined below.

1. Boutiques broadly outperformed non-boutiques

Over the past 20 years, the average boutique strategy outperformed the average non-boutique strategy in 9 out of 11 product categories examined, by an annual average 51 bps across all categories (Figure 7). Boutique outperformance was most significant in Emerging Markets Equity (+127 bps annually), Global Equity (+113 bps), and U.S. Small Cap Equity (ranging from +31 bps to +101 bps) strategies.

Figure 7: Boutique Outperformance vs. Non-Boutiques: Boutiques Outperformed by Average Annual 51 bps

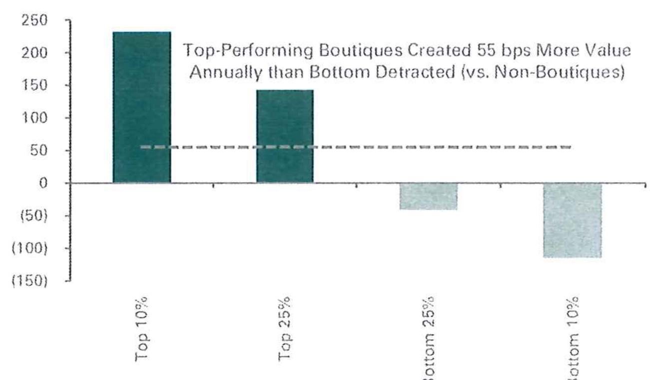


Source: AMG proprietary analysis and classification of firms and strategies. MercerInsight® database utilized for return data. Firms represented include AMG Affiliates. Analysis based on rolling one-year gross returns for institutional strategies during trailing 20-year period ending 12/31/14.

2. Top-performing boutiques added more value for clients than bottom-performing boutiques detracted

Our analysis demonstrates that top-decile and top-quartile boutique strategies outperformed their non-boutique counterparts by a wide margin (average annual 232 bps and 142 bps, respectively). However, just as notable was the fact that bottom-quartile and bottom-decile boutique strategies lagged their non-boutique counterparts by a much narrower margin (41 bps and 115 bps, respectively). This suggests that any outsized boutique risk-taking didn't necessarily result in excessive downside for bottom performers.

Figure 8: Top-Performing Boutiques vs. Non-Boutiques: Top Performers Added 55 bps More Value Annually (vs. Non-Boutiques) Than Bottom Performers Detracted



Source: AMG proprietary analysis and classification of firms and strategies. Firms represented include AMG Affiliates. MercerInsight® database utilized for return data. Analysis based on rolling one-year gross returns for institutional strategies during trailing 20-year period ending 12/31/14. Top and bottom performers incorporate investment strategies in the 10th, 25th, 75th, and 90th percentile on an annual basis.

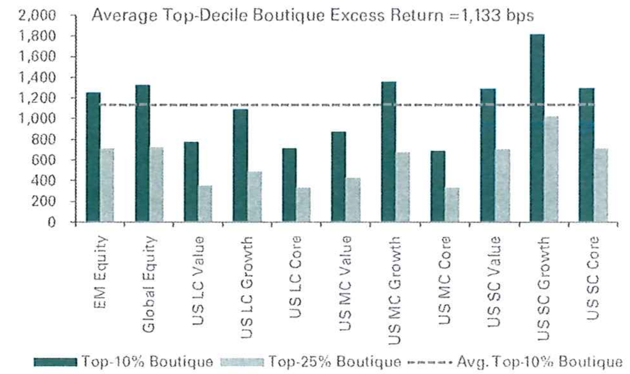
3. Boutiques created significant value versus indices

In sharp contrast to industry reports finding that a significant majority of active managers have underperformed benchmarks, our analysis determined that boutique institutional equity strategies were able to deliver significant net excess returns relative to indices over the trailing 20-year period. Across the 11 product categories examined, boutique net returns outpaced primary indices by an average annual 141 bps. In fact, the average boutique strategy outperformed its primary index net of fees – in most cases by a wide margin – in 9 out of 11 product categories.

Figure 9: Boutique Excess Returns: Boutiques Generated 141 bps of Annual Net Excess Returns vs. Indices

Source: AMG proprietary analysis and classification of firms and strategies. Firms represented include AMG Affiliates. MercerInsight® database utilized for return data. Net returns estimated by taking one-year rolling gross returns for institutional strategies during trailing 20-year period ending 12/31/14 less estimated average boutique fee rates based on available data for each product category. Primary indices include MSCI EM, MSCI World, Russell 1000 Value, Russell 1000 Growth, S&P 500, Russell Midcap Value, Russell Midcap Growth, Russell Midcap, Russell 2000 Value, Russell 2000 Growth, Russell 2000.

Figure 10: Top-Performing Boutiques vs. Indices: Top-Decile Boutiques Beat Indices by Average Annual 1,133 bps



Source: AMG proprietary analysis and classification of firms and strategies. Firms represented include AMG Affiliates. MercerInsight® database utilized for return data. Net returns estimated by taking one-year rolling gross returns for institutional strategies during trailing 20-year period ending 12/31/14 less estimated average boutique fee rates based on available data for each product category; top performers include boutique strategies in the top 10% and top 25%. Primary indices include MSCI EM, MSCI World, Russell 1000 Value, Russell 1000 Growth, S&P 500, Russell Midcap Value, Russell Midcap Growth, Russell Midcap, Russell 2000 Value, Russell 2000 Growth, Russell 2000.

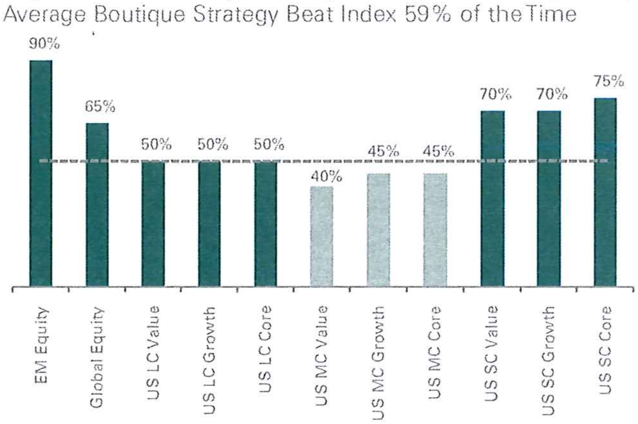
4. Top-performing boutiques generated exceptional excess returns versus indices

Our analysis also demonstrates that the top-performing boutique strategies added a tremendous amount of value relative to indices net of fees. Top-decile boutique strategies added an average annual 1,133 bps versus primary indices, while top-quartile boutiques added an average annual 589 bps (Figure 10). Similar to our analysis of average boutique outperformance, top-decile boutique outperformance was most pronounced in Emerging Markets Equity, Global Equity, and U.S. Small Cap Equity. Meanwhile, despite more modest levels of outperformance for average boutique strategies in the U.S. Large Cap Equity and U.S. Mid Cap Equity categories, the top performers generated significant excess returns.

5. Boutique strategies, on average, had a high frequency of outperforming indices

Across all product categories examined, the average boutique strategy outpaced its primary index 59% of the time over the trailing 20-year period net of fees. In addition, the average boutique strategy beat its primary index in at least half of the 20 one-year rolling periods in 8 out of 11 product categories.

Figure 11: Boutique Outperformance Frequency: Average Boutique Strategy Beat Index 59% of the Time

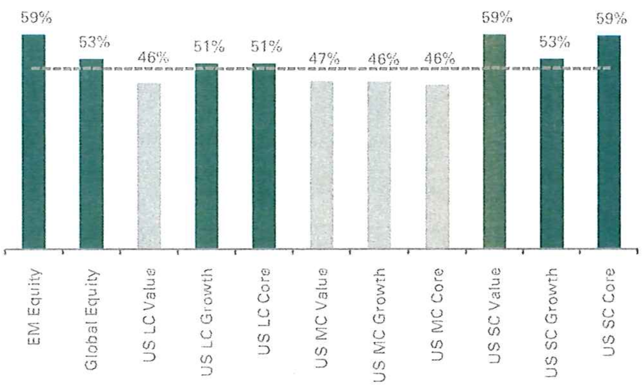


Source: AMG proprietary analysis and classification of firms and strategies. Firms represented include AMG Affiliates. MercerInsight® database utilized for return data. Net returns estimated by taking one-year rolling gross returns for institutional strategies during trailing 20-year period ending 12/31/14 less estimated average boutique fee rates based on available data for each product category. Primary indices include MSCI EM, MSCI World, Russell 1000 Value, Russell 1000 Growth, S&P 500, Russell Midcap Value, Russell Midcap Growth, Russell Midcap, Russell 2000 Value, Russell 2000 Growth, Russell 2000.

6. Individual boutique strategies outperformed indices more often than not

We also found that over half of the boutique strategies in our data sample beat their primary indices net of fees in 7 out of 11 product categories (Figure 12). The proportion of boutiques outperforming indices was particularly high in the Emerging Markets Equity, Global Equity, and U.S. Small Cap Equity categories. Across all 11 product categories, an aggregate 52% of boutique strategies beat their primary indices net of fees. We find this quite constructive given recent industry reports suggesting that a significant majority of active managers have underperformed indices.

Figure 12: Proportion of Boutiques Beating Indices: Over 50% Beat Indices in 7 out of 11 Product Categories

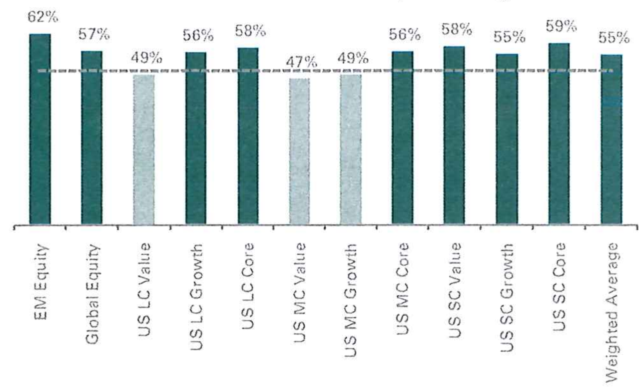


Source: AMG proprietary analysis and classification of firms and strategies. Firms represented include AMG Affiliates. MercerInsight® database utilized for return data. Net returns estimated by taking one-year rolling gross returns for institutional strategies during trailing 20-year period ending 12/31/14 less estimated average boutique fee rates based on available data for each product category. Primary indices include MSCI EM, MSCI World, Russell 1000 Value, Russell 1000 Growth, S&P 500, Russell Midcap Value, Russell Midcap Growth, Russell Midcap, Russell 2000 Value, Russell 2000 Growth, Russell 2000.

7. Boutique outperformance versus indices was persistent

For purposes of measuring the persistency of boutique net excess returns, we examined the percentage of boutiques beating the index in a year following one in which they outperformed. The results reflect favorably on boutique managers, as their strategies beat indices 55% of the time in years following one in which they outperformed (Figure 13). Further, boutique outperformance persistency was greater than 50% in 8 out of 11 product categories.

Figure 13: Boutique Outperformance Persistency: Beat Indices 55% of the Time After Outperforming Previous Year



Source: AMG proprietary analysis and classification of firms and strategies. Firms represented include AMG Affiliates. MercerInsight® database utilized for return data. Boutique persistency measured as percentage of boutiques beating their primary index (net of estimated fees) in successive years (after they had beaten the index in the previous year). Primary indices include MSCI EM, MSCI World, Russell 1000 Value, Russell 1000 Growth, S&P 500, Russell Midcap Value, Russell Midcap Growth, Russell Midcap, Russell 2000 Value, Russell 2000 Growth, Russell 2000.

Conclusion:
Core Boutique Characteristics Position Them Well To Add Value For Clients

Analysis Reflects Favorably On Boutique Investment Managers

While a considerable amount of research has focused on the perennial active versus passive debate, our analysis focused on an important industry subset – active boutique investment managers. Our analysis illustrates that boutiques have outperformed non-boutique peers and delivered significant net excess returns versus indices over the past 20 years. It also suggests that top boutiques generate significant alpha and that the strongest boutique outperformance came in the Emerging Markets Equity, Global Equity, and U.S. Small Cap Equity categories.

Core Boutique Characteristics Position Them To Generate Long-Term Outperformance

Sophisticated investors around the world are increasingly recognizing the ability of focused boutique active investment managers to outperform both non-boutique peers and indices. Many of these investors follow a barbell strategy, where they complement their core passive exposures with allocations to active equity and alternative strategies managed by boutiques. Core characteristics that position boutiques well to consistently outperform in return-seeking asset classes (active equities and alternatives) include:

- **Alignment of interests:** direct equity ownership ensures that key principals have a vested interest in the long-term success of a boutique. Many of the most talented investment professionals in the world are drawn to the boutique structure, where the incentive system allows them to own the results of their investment performance.

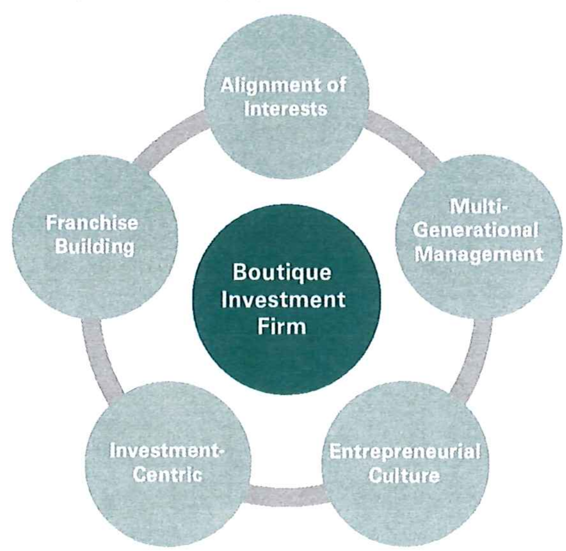
- **Multi-generational management:** the presence of a multi-generational management team, including a succession plan, is another core foundation of a boutique. This ensures that key principals will continue to remain motivated and highly involved in business development.

- **Entrepreneurial culture with partnership orientation:** key partners control the daily operations of a boutique and are actively involved in business planning and building an enduring franchise. Great investors are more likely to be drawn to boutiques that offer an entrepreneurial culture and allow them to have a direct impact on the future success of their business.

- **Investment-centric:** a boutique has an investment-centric organizational alignment, typically geared to a distinct investment philosophy (e.g., value-oriented with strong focus on purchasing securities below their intrinsic value) with a highly focused investment process (e.g., bottom-up stock picking). These investment considerations have primacy at a boutique, which is more likely to manage towards optimal risk-adjusted returns, often setting capacity limits to remain nimble in its investment approach.

- **Commitment to building an enduring franchise:** key principals are committed to the long-term growth and success of a boutique, often signaled by their willingness to sign multi-year employment agreements. A stable, long-term environment is ideal for generating investment success, and a group of principals bound together by long-term equity is best positioned to deliver this success.

Figure 14: Boutique Model: Core Characteristics Giving Boutiques an Advantage in Generating Alpha



Source: AMG

Appendix

Figure 15: Boutique Strategies vs. Non-Boutique Strategies: Average Annual Outperformance

	Average Annual Value Creation vs. Comparable Non-Boutique (bps)					Percentage of Years Outperforming	
	Top 10% Boutique	Top 25% Boutique	Average Boutique	Bottom 25% Boutique	Bottom 10% Boutique	Average Boutique > Non-Boutique	Median Boutique > Non-Boutique
Emerging Markets Equity	321	262	**127**	(7)	(103)	80%	70%
Global Equity	360	300	**113**	(59)	(90)	70%	70%
U.S. Large Cap Value Equity	211	98	**52**	(19)	(100)	75%	60%
U.S. Large Cap Growth Equity	365	138	**72**	(49)	(110)	70%	60%
U.S. Large Cap Core Equity	120	70	**24**	(45)	(49)	55%	50%
U.S. Mid Cap Value Equity	240	143	**45**	(83)	(125)	60%	55%
U.S. Mid Cap Growth Equity	222	149	**(4)**	(97)	(144)	40%	35%
U.S. Mid Cap Core Equity	(140)	(88)	**(85)**	(53)	(117)	40%	40%
U.S. Small Cap Value Equity	313	197	**101**	(3)	(87)	75%	65%
U.S. Small Cap Growth Equity	294	167	**31**	(49)	(247)	50%	30%
U.S. Small Cap Core Equity	249	126	**83**	15	(94)	70%	65%
Mean	*232*	*142*	***51***	*(41)*	*(115)*	*62%*	*55%*
Median	*249*	*143*	***52***	*(49)*	*(103)*	*70%*	*60%*

Source: AMG proprietary analysis and classification of firms and strategies. Firms represented include AMG Affiliates. MercerInsight® database utilized for return data. Analysis based on rolling one-year gross returns for institutional equity strategies during trailing 20-year period ending 12/31/14.

Figure 16: Boutique Strategies vs. Indices: Average Annual Net Excess Returns

	Average Annual Net Value Creation vs. Primary Index (bps)					Other Statistics	
	Top 10% Boutique	Top 25% Boutique	Average Boutique	Bottom 25% Boutique	Bottom 10% Boutique	Frequency of Avg. Boutique > Index	% of Boutiques Beating Index
Emerging Markets Equity	1,252	710	**283**	(230)	(607)	90%	61%
Global Equity	1,324	727	**216**	(406)	(816)	65%	56%
U.S. Large Cap Value Equity	774	350	**7**	(378)	(744)	50%	45%
U.S. Large Cap Growth Equity	1,088	486	**88**	(420)	(819)	50%	50%
U.S. Large Cap Core Equity	713	337	**30**	(320)	(656)	50%	50%
U.S. Mid Cap Value Equity	873	424	**(1)**	(465)	(838)	40%	46%
U.S. Mid Cap Growth Equity	1,358	672	**70**	(585)	(1,073)	45%	47%
U.S. Mid Cap Core Equity	685	335	**(10)**	(397)	(762)	45%	46%
U.S. Small Cap Value Equity	1,287	709	**241**	(291)	(763)	70%	59%
U.S. Small Cap Growth Equity	1,818	1,021	**356**	(406)	(1,019)	70%	54%
U.S. Small Cap Core Equity	1,293	711	**274**	(247)	(706)	75%	61%
Mean	*1,133*	*589*	***141***	*(377)*	*(800)*	*59%*	*52%*
Median	*1,252*	*672*	***88***	*(397)*	*(763)*	*50%*	*50%*

Source: AMG proprietary analysis and classification of firms and strategies. Firms represented include AMG Affiliates. MercerInsight® database utilized for return data. Net returns estimated by taking one-year rolling gross returns for institutional equity strategies during trailing 20-year period ending 12/31/14 less estimated average boutique fee rates based on available data for each product category. Primary indices include MSCI EM, MSCI World, Russell 1000 Value, Russell 1000 Growth, S&P 500, Russell Midcap Value, Russell Midcap Growth, Russell Midcap, Russell 2000Value, Russell 2000 Growth, Russell 2000.

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