AFFILIATED MANAGERS GROUP, INC.
Form 10-Q
August 04, 2015
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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q
(Mark One)

ý	QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2015
OR

o	TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to
Commission File Number 001-13459

Affiliated Managers Group, Inc.
(Exact name of registrant as specified in its charter)

Delaware	04-3218510
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification Number)

777 South Flagler Drive, West Palm Beach, Florida 33401
(Address of principal executive offices)
(800) 345-1100
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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Large accelerated filer ý	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No ý

There were 54,284,042 shares of the registrant’s common stock outstanding on July 30, 2015.

PART I—FINANCIAL INFORMATION
Item 1. Financial Statements
AFFILIATED MANAGERS GROUP, INC.
CONSOLIDATED STATEMENTS OF INCOME
(in millions, except per share data)
(unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2014	2015	2014	2015
Revenue	$636.3	$646.6	$1,229.4	$1,281.6
Operating expenses:				
Compensation and related expenses	272.6	292.2	508.3	544.9
Selling, general and administrative	122.8	114.3	245.1	223.0
Intangible amortization and impairments	28.1	28.1	55.5	55.9
Depreciation and other amortization	4.1	4.6	7.9	9.0
Other operating expenses	10.3	12.2	20.2	22.1
	437.9	451.4	837.0	854.9
Operating income	198.4	195.2	392.4	426.7
Income from equity method investments	54.7	60.1	100.9	113.2
Other non-operating (income) and expenses:				
Investment and other income	(8.4)	(16.0)	(16.6)	(16.7)
Interest expense	20.0	22.5	37.7	44.7
Imputed interest expense and contingent payment arrangements	2.4	(13.2)	24.8	(40.4)
	14.0	(6.7)	45.9	(12.4)
Income before income taxes	239.1	262.0	447.4	552.3
Income taxes	61.1	72.1	110.0	141.7
Net income	178.0	189.9	337.4	410.6
Net income (non-controlling interests)	(78.9)	(61.2)	(161.2)	(153.9)
Net income (controlling interest)	$99.1	$128.7	$176.2	$256.7
Average shares outstanding (basic)	55.4	54.6	54.6	54.7
Average shares outstanding (diluted)	56.6	57.5	55.9	57.7
Earnings per share (basic)	$1.79	$2.36	$3.23	$4.70
Earnings per share (diluted)	$1.75	$2.31	$3.15	$4.58

The accompanying notes are an integral part of the Consolidated Financial Statements.

AFFILIATED MANAGERS GROUP, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in millions)
(unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2014	2015	2014	2015
Net income	$178.0	$189.9	$337.4	$410.6
Other comprehensive income (loss):				
Foreign currency translation adjustment	20.4	48.5	11.6	(11.6)
Change in net realized and unrealized gain on derivative securities, net of tax	0.1	(0.7)	0.3	2.0
Change in net unrealized gain (loss) on investment securities, net of tax	5.1	47.9	(8.7)	56.6
Other comprehensive income	25.6	95.7	3.2	47.0
Comprehensive income	203.6	285.6	340.6	457.6
Comprehensive income (non-controlling interests)	(82.6)	(44.4)	(165.1)	(151.2)
Comprehensive income (controlling interest)	$121.0	$241.2	$175.5	$306.4

The accompanying notes are an integral part of the Consolidated Financial Statements.

AFFILIATED MANAGERS GROUP, INC.
CONSOLIDATED BALANCE SHEETS
(in millions)
(unaudited)

	December 31, 2014	June 30, 2015
Assets		
Cash and cash equivalents	$ 550.6	$ 488.5
Receivables	425.9	482.0
Investments in marketable securities	172.6	261.5
Other investments	167.2	165.7
Fixed assets, net	95.4	97.8
Goodwill	2,652.8	2,670.0
Acquired client relationships, net	1,778.4	1,749.8
Equity method investments in Affiliates	1,783.5	1,692.1
Other assets	71.7	71.4
Total assets	$ 7,698.1	$ 7,678.8
Liabilities and Equity		
Payables and accrued liabilities	$ 808.3	$ 632.0
Senior bank debt	855.0	475.0
Senior notes	736.8	1,084.3
Convertible securities	303.1	304.1
Deferred income taxes	491.7	572.9
Other liabilities	214.5	229.4
Total liabilities	3,409.4	3,297.7
Commitments and contingencies (Note 6)		
Redeemable non-controlling interests	645.5	744.3
Equity:		
Common stock	0.6	0.6
Additional paid-in capital	672.2	501.3
Accumulated other comprehensive income	31.8	76.1
Retained earnings	2,163.3	2,420.0
	2,867.9	2,998.0
Less: Treasury stock, at cost	(240.9)	(346.9)
Total stockholders' equity	2,627.0	2,651.1
Non-controlling interests	1,016.2	985.7
Total equity	3,643.2	3,636.8
Total liabilities and equity	$ 7,698.1	$ 7,678.8

The accompanying notes are an integral part of the Consolidated Financial Statements.

AFFILIATED MANAGERS GROUP, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(in millions)
(unaudited)

	Total Stockholders' Equity							
	Shares Outstanding	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock at Cost	Non-controlling Interests	Total Equity
December 31, 2013	53.9	$0.5	$479.9	$74.0	$1,711.2	$(131.4)	$1,010.4	$3,144.6
Net income	—	—	—	—	176.2	—	161.2	337.4
Share-based compensation	—	—	15.2	—	—	—	—	15.2
Common stock issued under share-based incentive plans	—	—	(87.2)	—	—	66.0	—	(21.2)
Tax benefit from share-based incentive plans	—	—	44.9	—	—	—	—	44.9
Settlement of senior convertible securities	1.9	0.1	276.4	—	—	—	—	276.5
Forward equity	—	—	(45.0)	—	—	—	—	(45.0)
Investments in Affiliates	—	—	—	—	—	—	116.6	116.6
Affiliate equity activity	—	—	(35.2)	—	—	—	13.8	(21.4)
Distributions to non-controlling interests	—	—	—	—	—	—	(345.5)	(345.5)
Other comprehensive income (loss)	—	—	—	(0.7)	—	—	3.9	3.2
June 30, 2014	55.8	$0.6	$649.0	$73.3	$1,887.4	$(65.4)	$960.4	$3,505.3

	Total Stockholders' Equity							
	Shares Outstanding	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock at Cost	Non-controlling Interests	Total Equity
December 31, 2014	55.8	$0.6	$672.2	$31.8	$2,163.3	$(240.9)	$1,016.2	$3,643.2
Net income	—	—	—	—	256.7	—	153.9	410.6
Share-based compensation	—	—	17.0	—	—	—	—	17.0
Common stock issued under share-based incentive plans	—	—	(123.4)	—	—	172.7	—	49.3
Tax benefit from share-based incentive	—	—	42.3	—	—	—	—	42.3

plans								
Affiliate equity activity	—	—	(106.8)	—	—	—	42.9	(63.9)
Share repurchases	—	—	—	—	—	(278.7)	—	(278.7)
Distributions to non-controlling interests	—	—	—	—	—	—	(230.0)	(230.0)
Other comprehensive income (loss)	—	—	—	44.3	—	—	2.7	47.0
June 30, 2015	55.8	$0.6	$501.3	$76.1	$2,420.0	$(346.9)	$985.7	$3,636.8

The accompanying notes are an integral part of the Consolidated Financial Statements.

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AFFILIATED MANAGERS GROUP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in millions)
(unaudited)

	For the Six Months Ended June 30,	
	2014	2015
Cash flow from (used in) operating activities:		
Net income	$337.4	$410.6
Adjustments to reconcile Net income to net Cash flow from operating activities:		
Intangible amortization and impairments	55.5	55.9
Depreciation and other amortization	7.9	9.0
Deferred income tax provision	30.3	59.7
Imputed interest expense and contingent payment arrangements	24.8	(40.4)
Income from equity method investments, net of amortization	(100.9)	(113.2)
Distributions received from equity method investments	254.5	222.7
Share-based compensation and Affiliate equity expense	61.1	67.1
Other non-cash items	1.8	(2.6)
Changes in assets and liabilities:		
Increase in receivables	(53.6)	(54.3)
(Increase) decrease in other assets	(3.5)	(5.2)
Increase (decrease) in payables, accrued liabilities and other liabilities	10.6	(138.8)
Cash flow from operating activities	625.9	470.5
Cash flow from (used in) investing activities:		
Investments in Affiliates	(534.0)	(32.0)
Purchase of fixed assets	(10.5)	(11.7)
Purchase of investment securities	(8.3)	(4.8)
Sale of investment securities	7.3	18.2
Cash flow used in investing activities	(545.5)	(30.3)
Cash flow from (used in) financing activities:		
Borrowings of senior debt	986.5	523.3
Repayments of senior debt and convertible securities	(815.6)	(556.0)
Issuance of common stock	24.0	53.2
Repurchase of common stock	—	(314.8)
Note and contingent payments	10.4	9.4
Distributions to non-controlling interests	(345.5)	(230.0)
Affiliate equity issuances and repurchases	(33.4)	(25.1)
Excess tax benefit from share-based compensation	44.6	42.3
Settlement of forward equity sale agreement	(45.0)	—
Other financing items	(5.0)	(3.3)
Cash flow used in financing activities	(179.0)	(501.0)
Effect of foreign exchange rate changes on cash and cash equivalents	3.2	(1.3)
Net decrease in cash and cash equivalents	(95.4)	(62.1)
Cash and cash equivalents at beginning of period	469.6	550.6
Cash and cash equivalents at end of period	$374.2	$488.5
Supplemental disclosure of non-cash financing activities:		
Settlement of 2006 junior convertible securities	$217.8	$—
Stock issued under incentive plans	63.3	10.7
Stock received in settlement of liability	44.7	3.6

Payables recorded under contingent payment arrangements	—	30.9
Payables recorded for Affiliate equity repurchases	20.9	54.9
Payables recorded for share repurchases	—	11.7

The accompanying notes are an integral part of the Consolidated Financial Statements.

AFFILIATED MANAGERS GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

The Consolidated Financial Statements of Affiliated Managers Group, Inc. (the "Company") have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair statement of the results have been included. All intercompany balances and transactions have been eliminated. Certain reclassifications have been made to the prior period's financial statements to conform to the current period's presentation. Operating results for interim periods are not necessarily indicative of the results that may be expected for any other period or for the full year. The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2014 includes additional information about its operations, financial position and accounting policies, and should be read in conjunction with this Quarterly Report on Form 10-Q.

All amounts in these notes, except per share data in the text and tables herein, are stated in millions unless otherwise indicated.

2. Recent Accounting Developments

In February 2015, the Financial Accounting Standard Board (the "FASB") issued a new standard that amended the current consolidation guidance. The new standard changes the analysis required to determine whether an entity is a variable interest entity and should be consolidated. The new standard is effective for interim and fiscal periods beginning after December 15, 2015, and early adoption is permitted. The Company is evaluating the impact of this new standard on its Consolidated Financial Statements.

In April 2015, the FASB issued a new standard aimed at reducing diversity in the presentation of debt issuance costs. The new standard requires debt issuance costs to be presented on the balance sheet as a deduction from the related debt. The new standard is effective for interim and fiscal periods beginning after December 15, 2015, and early adoption is permitted. The Company does not anticipate that this new standard will have a material impact on its Consolidated Financial Statements.

In April 2015, the FASB issued a new standard amending the disclosure requirements for investments in certain entities that calculate net asset value per share. The new standard removes, from the fair value hierarchy, investments for which the net asset value is used as a practical measure of fair value. The new standard is effective for interim and fiscal periods beginning after December 15, 2015, and early adoption is permitted. The Company is evaluating the impact of this new standard on its financial statement disclosures.

3. Investments in Marketable Securities

Investments in marketable securities at December 31, 2014 and June 30, 2015 were $172.6 million and $261.5 million, respectively. The following is a summary of the cost, gross unrealized gains and losses and fair value of investments classified as available-for-sale and trading at December 31, 2014 and June 30, 2015:

	Available-for-Sale		Trading	
	December 31, 2014	June 30, 2015	December 31, 2014	June 30, 2015
Cost	$125.6	$113.3	$19.5	$20.1
Unrealized Gains	42.8	126.4	2.9	4.4
Unrealized Losses	(18.1)	(2.6)	(0.1)	(0.1)
Fair Value	$150.3	$237.1	$22.3	$24.4

There were no significant realized gains or losses on investments classified as available-for-sale or trading for the three and six months ended June 30, 2014. In the six months ended June 30, 2015, there were $7.9 million of realized gains on investments classified as available-for-sale, all of which occurred in the three months ended June 30, 2015. These gains were recorded in Investment and other income. There were no significant realized gains or losses on investments classified as trading in the three and six months ended June 30, 2015.

AFFILIATED MANAGERS GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Variable Interest Entities

The Company's consolidated Affiliates act as investment managers for certain investment funds that are considered variable interest entities ("VIEs"). These Affiliates are entitled to receive management fees and may be eligible, under certain circumstances, to receive performance fees. The Affiliates' exposure to risk in these entities is generally limited to any equity investment and any uncollected management or performance fees, neither of which were material at December 31, 2014 and June 30, 2015. These Affiliates do not have any investment performance guarantees to these VIEs.

Consolidated Affiliates are not the primary beneficiary of any of these VIEs as their involvement is limited to that of a service provider, and their investment, if any, represents an insignificant interest in the relevant fund's assets under management. Since these Affiliates' variable interests will not absorb the majority of the variability of the VIE's net assets, these entities are not consolidated.

The net assets and liabilities of these unconsolidated VIEs and the Company's maximum risk of loss are as follows:

	December 31, 2014		June 30, 2015	
Category of Investment	Unconsolidated VIE Net Assets	Carrying Value and Maximum Exposure to Loss	Unconsolidated VIE Net Assets	Carrying Value and Maximum Exposure to Loss
Sponsored investment funds	$8,550.4	$1.2	$6,510.3	$1.3

5. Senior Debt

On February 13, 2015, the Company issued $350.0 million aggregate principal amount of 3.50% senior unsecured notes due 2025 (the "2025 senior notes"). The 2025 senior notes pay interest semi-annually and may be redeemed at any time, in whole or in part, at a make-whole redemption price plus accrued and unpaid interest. In addition to customary event of default provisions, the indenture limits the Company's ability to consolidate, merge or sell all or substantially all of its assets.

6. Commitments and Contingencies

The Company has committed to co-invest in certain investment partnerships. As of June 30, 2015, these unfunded commitments were $80.8 million and may be called in future periods. In connection with a past acquisition agreement, the Company is contractually entitled to reimbursement from a prior owner for $18.6 million of these commitments if they are called.

Under past acquisition agreements, the Company is contingently liable, upon achievement of specified financial targets, to make payments of up to $223.1 million through 2019. As of June 30, 2015, the Company expected to make payments of $9.9 million (the net present value of which totaled $6.7 million) to settle these obligations. We do not expect to make any payments associated with these contingent arrangements during the remainder of 2015.

7. Fair Value Measurements

The following table summarizes the Company's financial assets and liabilities that are measured at fair value on a recurring basis:

AFFILIATED MANAGERS GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

		Fair Value Measurements		
	December 31, 2014	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Financial Assets				
Cash equivalents	$ 59.1	$59.1	$—	$ —
Investments in marketable securities[1]				
Trading securities	22.3	22.3	—	—
Available-for-sale securities	150.3	150.3	—	—
Other investments	167.2	13.6	19.4	134.2
Financial Liabilities				
Contingent payment arrangements[2]	$ 59.3	$—	$—	$ 59.3
Obligations to related parties[2]	93.1	—	—	93.1
Interest rate swaps	1.4	—	1.4	—
Foreign currency forward contracts	0.5	—	0.5	—

		Fair Value Measurements		
	June 30, 2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Financial Assets				
Cash equivalents	$37.8	$37.8	$—	$ —
Investments in marketable securities[1]				
Trading securities	24.4	24.4	—	—
Available-for-sale securities	237.1	237.1	—	—
Other investments	165.7	24.3	8.0	133.4
Foreign currency forward contracts	1.5	—	1.5	—
Financial Liabilities				
Contingent payment arrangements[2]	$6.7	$—	$—	$ 6.7
Obligations to related parties[2]	127.3	—	—	127.3
Interest rate swaps	0.9	—	0.9	—
Foreign currency forward contracts	0.2	—	0.2	—

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(1) Principally investments in equity securities.
(2) Amounts are presented within Other liabilities in the accompanying Consolidated Balance Sheets.

The following are descriptions of the significant financial assets and liabilities measured at fair value and the fair value methodologies used.

Cash equivalents consist primarily of highly liquid investments in daily redeeming money market funds which are classified as Level 1.

Investments in marketable securities consist primarily of investments in publicly traded securities and in funds advised by Affiliates that are valued using net asset value ("NAV"). Publicly traded securities and investments in daily redeeming funds that calculate NAVs are classified as Level 1.
Other investments consist primarily of funds advised by Affiliates and are valued using NAV. Investments in daily redeeming funds that calculate NAVs are classified as Level 1. Investments in funds that permit redemptions monthly or quarterly are classified as Level 2. Investments in funds that are subject to longer redemption restrictions are classified as

AFFILIATED MANAGERS GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Level 3. The fair value of Level 3 assets is determined using NAV one quarter in arrears (adjusted for current period calls and distributions).

Contingent payment arrangements represent the present value of the expected future settlement of contingent payment arrangements related to the Company's investments in consolidated Affiliates. The significant unobservable inputs that are used in the fair value measurement of these obligations are growth and discount rates. Increases in the growth rate result in a higher obligation while an increase in the discount rate results in a lower obligation.

Obligations to related parties include agreements to repurchase Affiliate equity and liabilities offsetting certain investments that are held by the Company but economically attributable to a related party. The significant unobservable inputs that are used in the fair value measurement of the agreements to repurchase Affiliate equity are growth and discount rates. Increases in the growth rate result in a higher obligation while an increase in the discount rate results in a lower obligation. The liability to a related party is measured based upon certain investments held by the Company, the fair value of which is determined using NAV one quarter in arrears (adjusted for current period calls and distributions).

Interest rate swaps and foreign currency forward contracts use model-derived valuations in which all significant inputs are observable in active markets to determine fair value.

It is the Company's policy to value financial assets or liabilities transferred as of the beginning of the period in which the transfer occurs. There were no transfers of financial assets or liabilities between Level 1 and Level 2 in the three and six months ended June 30, 2014 and 2015.

Level 3 Financial Assets and Liabilities

The following table presents the changes in Level 3 assets and liabilities for the three and six months ended June 30, 2014 and 2015:

	For the Three Months Ended June 30,					
	2014			2015		
	Other Investments	Contingent Payment Arrangements	Obligations to Related Parties	Other Investments	Contingent Payment Arrangements	Obligations to Related Parties
Balance, beginning of period	$135.9	$53.2	$131.9	$133.8	$31.5	$86.1
Net gains/losses	5.1 (1)	1.9 (2)	1.9 (3)	2.4 (1)	(13.8) (2)	2.5 (3)
Purchases and issuances	3.1	—	1.6	3.7	6.5	51.0
Settlements and reductions	(4.6)	—	(37.0)	(6.5)	(17.5)	(12.3)
Net transfers in and/or out of Level 3	—	—	—	—	—	—
Balance, end of period	$139.5	$55.1	$98.4	$133.4	$6.7	$127.3
Net unrealized gains/losses relating to instruments still held at the reporting date	$5.8 (1)	$1.9 (2)	$1.4 (3)	$4.8 (1)	$(13.8) (2)	$(0.2) (3)

AFFILIATED MANAGERS GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	For the Six Months Ended June 30, 2014			2015		
	Other Investments	Contingent Payment Arrangements	Obligations to Related Parties	Other Investments	Contingent Payment Arrangements	Obligations to Related Parties
Balance, beginning of period	$131.8	$50.2	$76.9	$134.2	$59.3	$93.1
Net gains/losses	10.9 [1]	4.9 [2]	4.4 [3]	(1.8) [1]	(41.6) [2]	2.4 [3]
Purchases and issuances	6.9	—	61.0	6.2	6.5	67.8
Settlements and reductions	(10.1)	—	(43.9)	(11.7)	(17.5)	(36.0)
Net transfers in and/or out of Level 3	—	—	—	6.5	—	—
Balance, end of period	$139.5	$55.1	$98.4	$133.4	$6.7	$127.3
Net unrealized gains/losses relating to instruments still held at the reporting date	$12.7 [1]	$4.9 [2]	$2.4 [3]	$3.6 [1]	$(41.6) [2]	$(4.2) [3]

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(1) Gains and losses on Other investments are recorded in Investment and other income.

(2) Accretion and changes to the Company's contingent payment arrangements are recorded in Imputed interest expense and contingent payment arrangements.

(3) Gains and losses associated with agreements to repurchase Affiliate equity are recorded in Imputed interest expense and contingent payment arrangements. Gains and losses related to liabilities offsetting certain investments are recorded in Investment and other income.

The following table presents certain quantitative information about the significant unobservable inputs used in valuing the Company's Level 3 financial liabilities:

	Quantitative Information about Level 3 Fair Value Measurements					
	Valuation Techniques	Unobservable Input	Fair Value at December 31, 2014	Range at December 31, 2014	Fair Value at June 30, 2015	Range at June 30, 2015
Contingent payment arrangements	Discounted cash flow	Growth rates	$59.3	6%	$6.7	5% - 10%
		Discount rates		15%		16%
Affiliate equity obligations	Discounted cash flow	Growth rates	21.5	5% - 9%	58.3	2% - 11%
		Discount rates		15% - 16%		12% - 16%

Investments in Certain Entities that Calculate Net Asset Value

The Company uses the NAV of certain investments as their fair value. The NAVs that have been provided by the investees have been derived from the fair values of the underlying investments as of the measurement dates. The following table summarizes, as of December 31, 2014 and June 30, 2015, the nature of these investments and any related liquidity restrictions or other factors which may impact the ultimate value realized:

	December 31, 2014		June 30, 2015	
Category of Investment	Fair Value	Unfunded Commitments	Fair Value	Unfunded Commitments
Private equity funds[(1)]	$134.2	$67.8	$133.4	$80.8
Other funds[(2)]	75.8	—	87.5	—
	$210.0	$67.8	$220.9	$80.8

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(1) These funds primarily invest in a broad range of private equity funds, as well as make direct investments. Distributions will be received as the underlying assets are liquidated over the life of the funds, which is generally up to 15 years.

AFFILIATED MANAGERS GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(2) These are multi-disciplinary funds that invest across various asset classes and strategies, including long/short equity, credit and real estate. Investments are generally redeemable on a daily or quarterly basis.

Other Financial Assets and Liabilities Not Carried at Fair Value

The carrying amount of Cash and cash equivalents, Receivables, and Payables and accrued liabilities approximates fair value because of the short-term nature of these instruments. The carrying value of notes receivable approximates fair value because interest rates and other terms are at market rates. The carrying value of Senior bank debt approximates fair value because the debt has variable interest based on selected short-term rates. The following table summarizes the Company's other financial liabilities not carried at fair value:

	December 31, 2014		June 30, 2015		
	Carrying Value	Fair Value	Carrying Value	Fair Value	Fair Value Hierarchy
Senior notes	$736.8	$786.2	$1,084.3	$1,092.2	Level 2
Convertible securities	303.1	532.1	304.1	517.0	Level 2

8. Intangible Assets

Consolidated Affiliates

The following tables present the change in Goodwill and components of Acquired client relationships during the six months ended June 30, 2015:

	Goodwill			
	Institutional	Mutual Fund	High Net Worth	Total
Balance, as of December 31, 2014	$1,159.1	$1,125.3	$368.4	$2,652.8
New investments[1]	1.6	—	27.4	29.0
Foreign currency translation	(13.3)	10.6	(9.1)	(11.8)
Balance, as of June 30, 2015	$1,147.4	$1,135.9	$386.7	$2,670.0

	Acquired Client Relationships				
	Definite-lived			Indefinite-lived	Total
	Gross Book Value	Accumulated Amortization	Net Book Value	Net Book Value	Net Book Value
Balance, as of December 31, 2014	$1,255.1	$(565.0)	$690.1	$1,088.3	$1,778.4
New investments[1]	23.6	—	23.6	—	23.6
Intangible amortization and impairments	—	(55.9)	(55.9)	—	(55.9)
Foreign currency translation	(0.1)	—	(0.1)	3.8	3.7
Balance, as of June 30, 2015	$1,278.6	$(620.9)	$657.7	$1,092.1	$1,749.8

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(1) On April 1, 2015, the Company completed its investment in Baker Street Advisors, LLC.

Definite-lived acquired client relationships are amortized over their expected useful lives. As of June 30, 2015, these relationships were being amortized over a weighted average life of approximately ten years. The Company recognized amortization expenses for these relationships of $28.1 million and $55.5 million for the three and six months ended June 30, 2014, respectively, as compared to $28.1 million and $55.9 million for the three and six months ended June 30, 2015, respectively. Based on relationships existing as of June 30, 2015, the Company estimates that its consolidated annual amortization expense will be approximately $120.0 million for each of the next five years, assuming no additional investments in new Affiliates.

On July 13, 2015, the Company announced that it will acquire a majority equity interest in myCIO Wealth Partners, LLC ("myCIO").

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Equity Method Investments in Affiliates

The intangible assets at the Company's equity method Affiliates consist of definite-lived and indefinite-lived acquired client relationships and goodwill. As of June 30, 2015, the definite-lived relationships were being amortized over a weighted average life of approximately fourteen years. The Company recognized amortization expense for these relationships of $8.9 million and $14.3 million for the three and six months ended June 30, 2014, respectively, as compared to $8.7 million and $17.5 million for the three and six months ended June 30, 2015, respectively. Based on relationships existing as of June 30, 2015, the Company estimates the annual amortization expense will be approximately $34.1 million in 2015 and $31.9 million in each of 2016, 2017, 2018 and 2019. In the three months ended June 30, 2015, goodwill and acquired client relationships associated with equity method investments increased by $24.4 million related to a contingent payment obligation.

On December 26, 2014, the Company completed an additional investment in AQR Capital Management Holdings, LLC. The Company's purchase price allocation is provisional and may be revised upon completion.

9. Share-Based Compensation

A summary of share-based compensation is as follows:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2014	2015	2014	2015
Share-based compensation	$8.7	$9.1	$15.2	$17.1
Tax benefit	3.4	3.5	5.8	6.6

There was $56.8 million and $86.3 million of unrecognized share-based compensation as of December 31, 2014 and June 30, 2015, respectively, which will be recognized over a weighted average period of approximately three years (assuming no forfeitures).

Stock Options

The following table summarizes the transactions of the Company's stock options:

	Stock Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)
Unexercised options outstanding—December 31, 2014	2.3	$83.42	
Options granted	0.0	199.86	
Options exercised	(0.9)	65.60	
Options forfeited	(0.0)	101.29	
Unexercised options outstanding—June 30, 2015	1.4	94.29	2.5
Exercisable at June 30, 2015	1.3	91.76	2.4

Restricted Stock

The following table summarizes the transactions of the Company's restricted stock units:

	Restricted Stock	Weighted Average Grant Date Value
Unvested units—December 31, 2014	0.4	$182.83
Units granted	0.3	197.93
Units vested	(0.2)	174.19
Units forfeited	(0.0)	190.76
Unvested units—June 30, 2015	0.5	192.10

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Of the 0.3 million units granted in January 2015, 0.2 million contained service-based vesting conditions and the remaining 0.1 million vest if both a requisite service period and certain performance conditions have been satisfied. The fair values of the awards were based on the closing price of the Company's common stock on the date of grant and will be recognized as compensation expense over a service period of four years.

10. Affiliate Equity

A summary of Affiliate equity expense is as follows:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2014	2015	2014	2015
Affiliate equity expense	$30.7	$40.7	$45.9	$50.0
Tax benefit	4.3	1.1	7.2	2.6

Affiliate equity expense attributable to the non-controlling interests was $19.7 million and $27.2 million in the three and six months ended June 30, 2014, respectively, as compared to $37.9 million and $43.3 million in the three and six months ended June 30, 2015, respectively. As of December 31, 2014 and June 30, 2015, the Company had $71.1 million and $81.3 million, respectively, of unrecognized Affiliate equity expense, which will be recognized over a weighted average period of approximately four years (assuming no forfeitures). Of this unrecognized expense, $41.6 million and $56.6 million was attributable to the non-controlling interests, respectively.

The Company has a conditional right to call and holders of non-controlling interests have a conditional right to put their equity interests at certain intervals. The current redemption value of these interests has been presented as Redeemable non-controlling interests on the Consolidated Balance Sheets. Changes in the current redemption value are recorded to Additional paid-in capital. The following table presents the changes in Redeemable non-controlling interests during the period:

	Redeemable Non-controlling Interests
Balance, as of December 31, 2014	$ 645.5
Transactions in Redeemable non-controlling interests	(61.8)
Changes in redemption value	160.6
Balance, as of June 30, 2015	$ 744.3

During the three and six months ended June 30, 2014 and 2015, the Company acquired interests from, and transferred interests to, Affiliate management. The following schedule discloses the effect of changes in the Company's ownership interest in its Affiliates on the controlling interest's equity:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2014	2015	2014	2015
Net income (controlling interest)	$99.1	$128.7	$176.2	$256.7
Increase (decrease) in controlling interest paid-in capital from purchases and sales of Affiliate equity	2.8	(28.6)	(13.5)	(31.6)
Change from Net income (controlling interest) and net transfers with non-controlling interests	$101.9	$100.1	$162.7	$225.1

11. Income Taxes

The consolidated income tax provision includes taxes attributable to the controlling interest and, to a lesser extent, taxes attributable to non-controlling interests as follows:

AFFILIATED MANAGERS GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2014	2015	2014	2015
Controlling interests:				
Current tax	$42.3	$43.4	$72.6	$75.4
Intangible-related deferred taxes	18.4	20.7	35.3	41.1
Other deferred taxes	(3.0)	5.1	(4.6)	18.9
Total controlling interests	57.7	69.2	103.3	135.4
Non-controlling interests:				
Current tax	$3.6	$3.1	$7.1	$6.6
Deferred taxes	(0.2)	(0.2)	(0.4)	(0.3)
Total non-controlling interests	3.4	2.9	6.7	6.3
Provision for income taxes	$61.1	$72.1	$110.0	$141.7
Income before income taxes (controlling interest)	$156.8	$197.9	$279.5	$392.1
Effective tax rate attributable to controlling interest[1]	36.8 %	35.0 %	37.0 %	34.5 %

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[1] Taxes attributable to the controlling interest divided by Income before income taxes (controlling interest).

The Effective tax rate attributable to controlling interest was 36.8% and 37.0% for the three and six months ended June 30, 2014, respectively, as compared to 35.0% and 34.5% for the three and six months ended June 30, 2015, respectively. The decrease resulted primarily from an indefinite reinvestment of $6.3 million and $12.5 million of non-U.S. earnings in the three and six months ended June 30, 2015, respectively.

As of June 30, 2015, the Company carried a liability for uncertain tax positions of $27.6 million, including $1.9 million for interest and related charges. At June 30, 2015, this liability also included $25.5 million for tax positions that, if recognized, would affect the Company's effective tax rate.

The Company periodically has tax examinations in the U.S. and foreign jurisdictions. Examination outcomes, and any related settlements, are subject to significant uncertainty. The completion of examinations may result in the payment of additional taxes and/or the recognition of tax benefits.

12. Derivative Financial Instruments

From time to time, the Company seeks to offset its exposure to changing interest rates under its debt financing arrangements and certain of its Affiliates seek to offset their exposure to changing foreign currency rates by entering into derivative contracts.

The following table summarizes the interest rate swap agreements outstanding at June 30, 2015:

						Fair Value[1]	
	Notional Amount	Paying	Receiving	Start Date	Expiration Date	December 31, 2014	June 30, 2015
Counterparty A	$25.0	1.67 %	3-Month LIBOR	October 2010	October 2015	$(0.3)	$(0.1)
Counterparty A	$25.0	1.65 %	3-Month LIBOR	October 2010	October 2015	(0.3)	(0.1)
Counterparty B	$25.0	1.59 %	3-Month LIBOR	October 2010	October 2015	(0.2)	(0.1)
Counterparty B	$25.0	2.14 %	3-Month LIBOR	October 2010	October 2017	(0.6)	(0.6)

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(1) Aggregate fair values of $1.4 million and $0.9 million at December 31, 2014 and June 30, 2015, respectively, are presented within Other liabilities. The Company posted collateral with its counterparties of $1.7 million.

The Company's Affiliates entered into foreign currency forward contracts to hedge projected cash flows denominated in currencies other than their functional currency. The following table summarizes the foreign currency forward contracts outstanding at June 30, 2015:

	Paying	Receiving	Start Date	Expected Settlement	Fair Value[(1)] December 31, 2014	June 30, 2015
Counterparty C	€15.8	$19.2	December 2014	Quarterly 2015	$0.3	$1.5
Counterparty C	$7.5	£4.7	September 2014	Monthly 2015	(0.8)	(0.2)
Counterparty C	£2.0	$3.1	June 2015	July 2015	—	0.0

(1) The fair values of receivables and payables related to outstanding hedge contracts are presented within Other assets and Other liabilities, respectively. These amounts are expected to be reclassified into earnings within the next twelve months.

During the three and six months ended June 30, 2015, the Company realized $1.1 million and $1.4 million, respectively, of gains and $0.5 million and $1.1 million, respectively, of losses upon the settlement of certain foreign currency forward contracts. Such realized gains and losses are presented gross in the Consolidated Statements of Income within Revenue, Investment and other income or Operating expenses.

13. Earnings Per Share

The calculation of basic earnings per share is based on the weighted average number of shares of the Company's common stock outstanding during the period. Diluted earnings per share is similar to basic earnings per share, but adjusts for the dilutive effect of the potential issuance of incremental shares of the Company's common stock. The following is a reconciliation of the numerator and denominator used in the calculation of basic and diluted earnings per share available to common stockholders.

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2014	2015	2014	2015
Numerator				
Net income (controlling interest)	$99.1	$128.7	$176.2	$256.7
Convertible securities interest expense, net	—	3.8	—	7.6
Net income (controlling interest), as adjusted	$99.1	$132.5	$176.2	$264.3
Denominator				
Average shares outstanding (basic)	55.4	54.6	54.6	54.7
Effect of dilutive instruments:				
Stock options and restricted stock	1.2	0.7	1.2	0.8
Forward equity	0.0	—	0.1	—
Junior convertible securities	—	2.2	—	2.2
Average shares outstanding (diluted)	56.6	57.5	55.9	57.7

The diluted earnings per share calculations in the table above exclude restricted stock units for which performance or market conditions have not yet been met and the anti-dilutive effect of the following shares:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2014	2015	2014	2015
Stock options and restricted stock	0.2	0.1	0.2	0.1
Junior convertible securities	2.2	—	2.9	—

AFFILIATED MANAGERS GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. Comprehensive Income

The following table shows the tax effects allocated to each component of Other comprehensive income:

	For the Three Months Ended June 30,					
	2014			2015		
	Pre-Tax	Tax Benefit (Expense)	Net of Tax	Pre-Tax	Tax Benefit (Expense)	Net of Tax
Foreign currency translation adjustment	$20.4	$—	$20.4	$48.5	$—	$48.5
Change in net realized and unrealized gain (loss) on derivative securities	0.2	(0.1)	0.1	(0.6)	(0.1)	(0.7)
Change in net unrealized gain (loss) on investment securities	8.3	(3.2)	5.1	76.5	(28.6)	47.9
Other comprehensive loss	$28.9	$(3.3)	$25.6	$124.4	$(28.7)	$95.7

	For the Six Months Ended June 30,					
	2014			2015		
	Pre-Tax	Tax Benefit (Expense)	Net of Tax	Pre-Tax	Tax Benefit (Expense)	Net of Tax
Foreign currency translation adjustment	$11.6	$—	$11.6	$(11.6)	$—	$(11.6)
Change in net realized and unrealized gain (loss) on derivative securities	0.5	(0.2)	0.3	2.2	(0.2)	2.0
Change in net unrealized gain (loss) on investment securities	(13.9)	5.2	(8.7)	90.7	(34.1)	56.6
Other comprehensive income (loss)	$(1.8)	$5.0	$3.2	$81.3	$(34.3)	$47.0

The components of Accumulated other comprehensive income (loss), net of taxes, are as follows:

	Foreign Currency Translation Adjustment	Realized and Unrealized Gains (Losses) on Derivative Securities	Unrealized Gains (Losses) on Investment Securities[1]	Total
Balance, as of December 31, 2014	$(5.4)	$(1.6)	$22.9	$15.9
Other comprehensive income (loss) before reclassifications	(11.6)	1.4	48.7	38.5
Amounts reclassified from other comprehensive income	—	0.6	7.9	8.5
Net other comprehensive income (loss)	(11.6)	2.0	56.6	47.0
Balance, as of June 30, 2015	$(17.0)	$0.4	$79.5	$62.9

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(1) See Note 3 of the Consolidated Financial Statements for amounts reclassified from Other comprehensive income.

15. Segment Information

Management has assessed and determined that the Company operates in three business segments representing the Company’s three principal distribution channels: Institutional, Mutual Fund and High Net Worth, each of which has different client relationships. The following table summarizes the Company’s financial results for each of the distribution channels:

AFFILIATED MANAGERS GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	For the Three Months Ended June 30,			
	2014		2015	
	Revenue	Net income (controlling interest)	Revenue	Net income (controlling interest)
Institutional	$265.2	$48.4	$255.4	$59.6
Mutual Fund	310.0	41.2	323.0	56.1
High Net Worth	61.1	9.5	68.2	13.0
Total	$636.3	$99.1	$646.6	$128.7

	For the Six Months Ended June 30,			
	2014		2015	
	Revenue	Net income (controlling interest)	Revenue	Net income (controlling interest)
Institutional	$510.1	$84.3	$508.3	$108.3
Mutual Fund	601.9	75.3	641.3	123.8
High Net Worth	117.4	16.6	132.0	24.6
Total	$1,229.4	$176.2	$1,281.6	$256.7

	Total Assets	
	December 31, 2014	June 30, 2015
Institutional	$3,739.8	$3,512.2
Mutual Fund	3,082.0	3,246.8
High Net Worth	876.3	919.8
Total	$7,698.1	$7,678.8

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

Certain matters discussed in this Quarterly Report on Form 10-Q, in our other filings with the Securities and Exchange Commission, in our press releases and in oral statements made with the approval of an executive officer may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements include, but are not limited to, statements related to our expectations regarding the performance of our business, our financial results, our liquidity and capital resources and other non-historical statements, and may be prefaced with words such as “outlook,” “guidance,” “believes,” “expects,” “potential,” “continues,” “may,” “will,” “should,” “ “approximately,” “predicts,” “projects,” “intends,” “plans,” “estimates,” “anticipates” or the negative version of these words or comparable words. Such statements are subject to certain risks, uncertainties and assumptions, including, among others, those described in this Quarterly Report on Form 10-Q and the factors discussed under the caption “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2014.

These factors (among others) could affect our financial performance and cause actual results to differ materially from historical earnings and those presently anticipated and projected. Forward-looking statements speak only as of the date they are made, and we will not undertake and we specifically disclaim any obligation to release publicly the result of any revisions which may be made to any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of events, whether or not anticipated. In that respect, we caution readers not to place undue reliance on any such forward-looking statements.

Management’s Discussion and Analysis should be read in conjunction with the consolidated financial statements and the notes thereto contained elsewhere in this Quarterly Report on Form 10-Q.

Executive Overview

We are a global asset management company with equity investments in leading boutique investment management firms, which we refer to as our “Affiliates.” We pursue a growth strategy designed to generate shareholder value through the growth of our existing Affiliates, as well as through additional investments in boutique investment management firms. In addition, we provide centralized assistance to our Affiliates in strategic matters, marketing, distribution, product development and operations.

As of June 30, 2015, we managed $642.7 billion in assets (approximately $650 billion including a pending investment) across a broad range of asset classes and investment styles in three principal distribution channels: Institutional, Mutual Fund and High Net Worth. We believe that our diversification across distribution channels, Affiliates, asset classes, investment styles and geographies helps to mitigate our exposure to the risks created by changing market environments. The following summarizes our operations in our three principal distribution channels.

- In the Institutional distribution channel, we manage assets for large institutional investors worldwide, including sovereign wealth funds, foundations, endowments and retirement plans for corporations and municipalities.
- In the Mutual Fund distribution channel, we provide advisory or sub-advisory services to mutual funds, UCITS and other retail-oriented products. These funds are distributed to retail and institutional clients directly and through intermediaries, including independent investment advisors, retirement plan sponsors, broker-dealers, major fund marketplaces and bank trust departments.
- In the High Net Worth distribution channel, we provide advisory services to ultra-high net worth individuals, family trusts and high net worth individuals through managed account relationships with intermediaries. Direct services to these clients include customized investment counseling, investment management and fiduciary services.

Our Structure and Relationship with Affiliates

We establish and maintain long-term partnerships with our Affiliates, believing that Affiliate equity ownership (along with our ownership) aligns our interests and provides a powerful incentive for the principal owners of our Affiliates to continue to grow their businesses. Our partnership approach allows for the principal owners of our Affiliates to retain equity sufficient to address their particular needs and to maintain operational autonomy in managing their businesses, thereby preserving their entrepreneurial culture and independence. Although the equity structure of each investment is tailored to meet the needs of a particular Affiliate, in all cases, we maintain a meaningful equity interest in the firm, with the remaining equity interests retained by Affiliate management.

The contractual structures of our investments vary from Affiliate to Affiliate, reflecting our tailored partnership approach. Where we own a majority of the equity interests of a firm, we typically use structures referred to as revenue sharing arrangements where a percentage of revenue is allocable to fund operating expenses, including compensation (the "Operating Allocation"), while the remaining revenue (the "Owners' Allocation") is allocable to us and Affiliate management. In other revenue sharing arrangements, we own a minority interest that allocates a percentage of the Affiliate's revenue to us, with the remaining revenue available to the Affiliate to pay operating expenses and profit distributions to the other owners. Under our revenue sharing arrangements, our contractual share of revenue generally has priority over allocations to Affiliate management. Certain of our Affiliates operate under profit-based arrangements through which we receive a distribution of net profits, rather than a percentage of revenue through a typical revenue sharing agreement. As a result, we participate in increases or decreases in the margin of such firms. From time to time, we may consider changes to the structure of our relationship with an Affiliate in order to better support the Affiliate's growth strategy.

Financial Results

For the three and six months ended June 30, 2015, Net income (controlling interest) was $128.7 million and $256.7 million, respectively, compared to $99.1 million and $176.2 million for the three and six months ended June 30, 2014, respectively. For the three and six months ended June 30, 2015, Earnings per share (diluted) was $2.31 and $4.58, respectively, compared to $1.75 and $3.15 for the three and six months ended June 30, 2014, respectively.

For the three and six months ended June 30, 2015, Economic net income (controlling interest) was $171.4 million and $333.5 million, respectively, Economic earnings per share was $3.08 and $5.99, respectively, and EBITDA (controlling interest) was $239.2 million and $460.1 million, respectively. For the three and six months ended June 30, 2014, Economic net income (controlling interest) was $149.8 million and $287.7 million, respectively, Economic earnings per share was $2.65 and $5.13, respectively, and EBITDA (controlling interest) was $211.9 million and $403.8 million, respectively. Economic net income (controlling interest), including Economic earnings per share, and EBITDA (controlling interest) are non-GAAP performance measures and are discussed in "Supplemental Performance Measures."

For the twelve months ended June 30, 2015, our assets under management increased 6% to $642.7 billion. The increase was primarily the result of $23.2 billion from new investments and $16.9 billion from organic growth from net client cash flows. These increases were partially offset by a $7.9 billion decrease in market changes.

The table below summarizes our financial highlights:

	As of and for the Three Months Ended June 30,		As of and for the Six Months Ended June 30,
(in millions, except as noted and per share data)	2014	2015	