

AFFILIATED MANAGERS GROUP INC
Form 10-Q
November 06, 2012

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2012

OR

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
(State or other jurisdiction
of incorporation or organization)

04-3218510
(IRS Employer Identification Number)

600 Hale Street, Prides Crossing, Massachusetts 01965
(Address of principal executive offices)

(617) 747-3300
(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 No

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 No

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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.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

There were 51,801,413 shares of the registrant's common stock outstanding on November 2, 2012.

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 September 30, | | For the Nine Months Ended September 30, | |
|--|--|----------|---|------------|
| | 2011 | 2012 | 2011 | 2012 |
| Revenue | \$ 413.8 | \$ 467.3 | \$ 1,302.4 | \$ 1,314.5 |
| Operating expenses: | | | | |
| Compensation and related expenses | 168.9 | 196.8 | 544.9 | 565.9 |
| Selling, general and administrative | 83.5 | 93.9 | 261.6 | 267.7 |
| Intangible amortization and impairments | 22.1 | 24.0 | 66.3 | 169.1 |
| Depreciation and other amortization | 4.0 | 3.5 | 11.6 | 10.6 |
| Other operating expenses | 9.3 | 9.4 | 27.1 | 27.7 |
| | 287.8 | 327.6 | 911.5 | 1,041.0 |
| Operating income | 126.0 | 139.7 | 390.9 | 273.5 |
| Non-operating (income) and expenses: | | | | |
| Investment and other (income) loss | 9.5 | (6.9) | 6.8 | (20.3) |
| Income from equity method investments | (9.8) | (19.4) | (40.1) | (47.3) |
| Interest expense | 18.1 | 21.8 | 55.6 | 58.8 |
| Imputed interest expense and contingent payment arrangements | 8.3 | 6.7 | 24.9 | (35.7) |
| | 26.1 | 2.2 | 47.2 | (44.5) |
| Income before income taxes | 99.9 | 137.5 | 343.7 | 318.0 |
| Income taxes | 19.8 | 19.4 | 73.2 | 46.0 |
| Net income | 80.1 | 118.1 | 270.5 | 272.0 |
| Net income (non-controlling interests) | (40.0) | (63.2) | (145.9) | (173.1) |
| Net income (controlling interest) | \$ 40.1 | \$ 54.9 | \$ 124.6 | \$ 98.9 |
| Average shares outstanding basic | 51.9 | 51.7 | 51.9 | 51.6 |
| Average shares outstanding diluted | 53.0 | 53.0 | 53.2 | 52.9 |
| Earnings per share basic | \$ 0.77 | \$ 1.06 | \$ 2.40 | \$ 1.92 |
| Earnings per share diluted | \$ 0.76 | \$ 1.04 | \$ 2.34 | \$ 1.87 |

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 September 30, | | For the Nine Months Ended September 30, | |
|---|--|----------|---|----------|
| | 2011 | 2012 | 2011 | 2012 |
| Net income | \$ 80.1 | \$ 118.1 | \$ 270.5 | \$ 272.0 |
| Other comprehensive income (loss): | | | | |
| Foreign currency translation adjustment | (34.6) | 15.2 | (18.2) | 19.7 |
| Change in net realized and unrealized loss on derivative securities, net of tax | (6.3) | (0.3) | (7.1) | (0.9) |
| Change in net unrealized gain (loss) on investment securities, net of tax | (40.5) | 1.2 | (46.2) | (1.1) |
| Other comprehensive income (loss) | (81.4) | 16.1 | (71.5) | 17.7 |
| Comprehensive income | (1.3) | 134.2 | 199.0 | 289.7 |
| Comprehensive income (non-controlling interests) | (40.0) | (63.4) | (145.9) | (174.8) |
| Comprehensive income (loss) (controlling interest) | \$ (41.3) | \$ 70.8 | \$ 53.1 | \$ 114.9 |

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

AFFILIATED MANAGERS GROUP, INC.

CONSOLIDATED BALANCE SHEETS

(in millions)

(unaudited)

| | December 31, 2011 | September 30, 2012 |
|---|----------------------|-----------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 449.5 | \$ 372.6 |
| Investment advisory fees receivable | 214.9 | 243.8 |
| Investments in marketable securities | 100.4 | 109.9 |
| Unsettled fund share receivables | 34.5 | 50.5 |
| Prepaid expenses and other current assets | 77.1 | 61.3 |
| Total current assets | 876.4 | 838.1 |
| Fixed assets, net | 69.1 | 72.4 |
| Equity investments in Affiliates | 615.8 | 935.8 |
| Acquired client relationships, net | 1,321.1 | 1,615.3 |
| Goodwill | 2,117.3 | 2,353.3 |
| Other assets | 219.2 | 215.9 |
| Total assets | \$ 5,218.9 | \$ 6,030.8 |
| Liabilities and Equity | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | \$ 343.6 | \$ 309.7 |
| Unsettled fund share payables | 40.8 | 52.5 |
| Payables to related party | 33.2 | 10.7 |
| Total current liabilities | 417.6 | 372.9 |
| Senior bank debt | 250.0 | 445.0 |
| Senior notes | | 200.0 |
| Senior convertible securities | 435.6 | 446.5 |
| Junior convertible trust preferred securities | 512.6 | 514.8 |
| Deferred income taxes | 506.0 | 521.4 |
| Other long-term liabilities | 145.7 | 162.4 |
| Total liabilities | 2,267.5 | 2,663.0 |
| Redeemable non-controlling interests | 451.8 | 513.1 |
| Equity: | | |
| Common stock | 0.5 | 0.5 |
| Additional paid-in capital | 927.5 | 855.3 |
| Accumulated other comprehensive income | 50.0 | 66.0 |
| Retained earnings | 1,176.7 | 1,275.6 |
| | 2,154.7 | 2,197.4 |
| Less treasury stock, at cost | (288.7) | (266.4) |
| Total stockholders' equity | 1,866.0 | 1,931.0 |
| Non-controlling interests | 633.6 | 923.7 |

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| | | |
|------------------------------|------------|------------|
| Total equity | 2,499.6 | 2,854.7 |
| Total liabilities and equity | \$ 5,218.9 | \$ 6,030.8 |

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

AFFILIATED MANAGERS GROUP, INC.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(in millions)

(unaudited)

| | Total Stockholders' Equity Accumulated | | | | | | | Total Equity |
|--|---|----------------------------------|----------------------------------|----------------------|------------------------------|----------------------------------|------------|-----------------|
| | Common Stock | Additional Paid-In Capital | Other Comprehensive Income | Retained Earnings | Treasury Stock at Cost | Non- controlling interests | | |
| December 31, 2011 | \$ 0.5 | \$ 927.5 | \$ 50.0 | \$ 1,176.7 | \$ (288.7) | \$ 633.6 | \$ 2,499.6 | |
| Stock issued under option and other incentive plans | | (37.5) | | | 83.2 | | 45.7 | |
| Tax benefit of option exercises | | 13.0 | | | | | 13.0 | |
| Changes in Affiliate equity value | | (72.6) | | | | 14.8 | (57.8) | |
| Share-based payment arrangements | | 24.9 | | | | | 24.9 | |
| Distributions to non-controlling interests | | | | | | (140.1) | (140.1) | |
| Investments in Affiliates | | | | | | 240.6 | 240.6 | |
| Repurchase of common shares | | | | | (60.9) | | (60.9) | |
| Net income | | | | 98.9 | | 173.1 | 272.0 | |
| Other comprehensive income | | | 16.0 | | | 1.7 | 17.7 | |
| September 30, 2012 | \$ 0.5 | \$ 855.3 | \$ 66.0 | \$ 1,275.6 | \$ (266.4) | \$ 923.7 | \$ 2,854.7 | |

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

AFFILIATED MANAGERS GROUP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)

(unaudited)

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|--|---|----------|--|----------|
| | 2011 | 2012 | 2011 | 2012 |
| Cash flow from operating activities: | | | | |
| Net income | \$ 80.1 | \$ 118.1 | \$ 270.5 | \$ 272.0 |
| Adjustments to reconcile Net income to net cash flow from operating activities: | | | | |
| Intangible amortization and impairments | 22.1 | 24.0 | 66.3 | 169.1 |
| Amortization of issuance costs | 1.8 | 2.0 | 6.2 | 5.7 |
| Depreciation and other amortization | 4.0 | 3.5 | 11.6 | 10.6 |
| Deferred income tax provision | 14.8 | 7.8 | 31.8 | 5.8 |
| Imputed interest expense and contingent payment arrangements | 8.3 | 6.7 | 24.9 | (35.7) |
| Income from equity method investments, net of amortization | (9.8) | (19.4) | (40.1) | (47.3) |
| Distributions received from equity method investments | 27.0 | 20.8 | 110.5 | 79.4 |
| Tax benefit from exercise of stock options | | 0.7 | 0.8 | 1.4 |
| Share-based compensation | 7.3 | 8.0 | 19.3 | 24.1 |
| Affiliate equity expense | 1.9 | 2.3 | 9.1 | 9.4 |
| Other adjustments | 9.0 | 1.9 | 19.5 | 1.3 |
| Changes in assets and liabilities: | | | | |
| (Increase) decrease in investment advisory fees receivable | 37.1 | 2.4 | 18.2 | (21.3) |
| Increase in prepaids and other current assets | (6.2) | (3.8) | (9.2) | (12.9) |
| (Increase) decrease in other assets | 0.6 | (1.6) | (1.7) | (2.5) |
| (Increase) decrease in unsettled fund shares receivable | 32.0 | (5.6) | (16.7) | (15.3) |
| Increase (decrease) in unsettled fund shares payable | (24.5) | 4.4 | 7.0 | 10.7 |
| Increase (decrease) in accounts payable, accrued liabilities and other long-term liabilities | 36.7 | 38.9 | 21.9 | (7.4) |
| Cash flow from operating activities | 242.2 | 211.1 | 549.9 | 447.1 |
| Cash flow used in investing activities: | | | | |
| Investments in Affiliates | | (350.0) | (13.3) | (755.3) |
| Purchase of fixed assets | (3.9) | (4.9) | (8.3) | (9.9) |
| Purchase of investment securities | (39.4) | (2.7) | (48.4) | (13.8) |
| Sale of investment securities | 0.5 | 3.6 | 10.9 | 31.1 |
| Cash flow used in investing activities | (42.8) | (354.0) | (59.1) | (747.9) |
| Cash flow from (used in) financing activities: | | | | |
| Borrowings of senior bank debt | | 360.0 | 110.0 | 555.0 |
| Repayments of senior bank debt | (85.0) | (360.0) | (360.0) | (360.0) |
| Issuance of senior notes | | 200.0 | | 200.0 |
| Issuance of common stock | 0.3 | 23.3 | 21.2 | 45.7 |
| Repurchase of common stock | (48.0) | | (48.0) | (60.9) |
| Issuance costs | (0.8) | (6.0) | (8.5) | (6.0) |
| Excess tax benefit from exercise of stock options | | 6.9 | 4.9 | 11.6 |
| Settlement of treasury lock | | | 4.0 | |
| Note payments | (8.4) | (1.8) | (80.7) | (2.1) |
| Distributions to non-controlling interests | (34.6) | (18.0) | (115.6) | (137.7) |
| Affiliate equity issuances and repurchases | (6.8) | (2.2) | (6.7) | (25.1) |
| Cash flow from (used in) financing activities | (183.3) | 202.2 | (479.4) | 220.5 |
| Effect of foreign exchange rate changes on cash and cash equivalents | (4.0) | 2.3 | (1.4) | 3.4 |
| Net increase (decrease) in cash and cash equivalents | 12.1 | 61.6 | 10.0 | (76.9) |
| Cash and cash equivalents at beginning of period | 311.2 | 311.0 | 313.3 | 449.5 |
| Cash and cash equivalents at end of period | \$ 323.3 | \$ 372.6 | \$ 323.3 | \$ 372.6 |

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Supplemental disclosure of non-cash financing activities:

| | | | | |
|---|-----|-----|---------|--------|
| Notes received for Affiliate equity sales | \$ | \$ | \$ 11.6 | \$ 3.0 |
| Payables recorded for Affiliate equity purchases | 4.9 | 0.9 | 17.8 | 14.5 |
| Payables recorded under contingent payment arrangements | 1.4 | | 1.4 | 24.8 |

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. ("AMG" or the "Company") have been prepared in accordance with accounting principles generally accepted in the United States of America 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 accounting principles generally accepted in the United States of America for complete financial statements. The year-end condensed balance sheet data was derived from audited financial statements, but does not include all of the disclosures required by accounting principles generally accepted in the United States of America. 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, 2011 includes additional information about AMG, its operations, financial position and accounting policies, and should be read in conjunction with this Quarterly Report on Form 10-Q.

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

2. Senior Bank Debt

The Company has a \$1,075.0 million senior unsecured credit facility (the "credit facility"), consisting of a \$825.0 million revolving credit facility (the "revolver") and a \$250.0 million term loan (the "term loan") and pays interest on any outstanding obligations at specified rates (based either on the LIBOR rate or the prime rate as in effect from time to time). A portion of the revolver (\$30.0 million) matures in January 2015 with the balance of \$795.0 million and the term loan maturing in November 2016. Subject to certain conditions, the Company may increase the revolver and the term loan by up to \$75.0 million and \$250.0 million, respectively.

The credit facility is unsecured and contains financial covenants with respect to leverage and interest coverage, as well as customary affirmative and negative covenants, including limitations on indebtedness, liens, cash dividends, asset dispositions and fundamental corporate changes.

As of December 31, 2011 and September 30, 2012, the Company had outstanding borrowings of \$250.0 million and \$445.0 million, respectively. As further described in Note 14, the Company has entered into interest rate swap contracts to exchange a fixed rate for the variable rate on a portion of its credit facility.

3. Senior Notes

As of September 30, 2012 the Company had \$200.0 million aggregate principal amount of 6.375% Senior Notes due 2042 (the "2042 Senior Notes"). The unsecured 2042 Senior Notes pay interest quarterly and may be redeemed by the Company at any time, on or after August 15, 2017. The 2042 Senior Notes' indenture includes customary provisions regarding events of default.

AFFILIATED MANAGERS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In October 2012, the Company sold \$140.0 million aggregate principal amount of 5.25% Senior Notes due 2022 (the "2022 Senior Notes"). The unsecured 2022 Senior Notes pay interest quarterly and may be redeemed at any time, on or after October 15, 2015. The 2022 Senior Notes' indenture includes customary provisions regarding events of default.

The Company used the net proceeds from both the 2042 Senior Notes and the 2022 Senior Notes to repay outstanding indebtedness under its revolver.

4. Convertible Securities

At September 30, 2012, the Company has one senior convertible security outstanding ("2008 senior convertible notes") and two junior convertible trust preferred securities outstanding, one issued in 2006 (the "2006 junior convertible trust preferred securities") and a second issued in 2007 (the "2007 junior convertible trust preferred securities"). The carrying values of the Company's convertible securities are as follows:

| | December 31, 2011 | | September 30, 2012 | |
|---|-------------------|------------------------------|--------------------|------------------------------|
| | Carrying Value | Principal amount at maturity | Carrying Value | Principal amount at maturity |
| Senior convertible securities: | | | | |
| 2008 senior convertible notes ⁽¹⁾ | \$ 435.6 | \$ 460.0 | \$ 446.5 | \$ 460.0 |
| Junior convertible trust preferred securities: | | | | |
| 2007 junior convertible trust preferred securities ⁽¹⁾ | \$ 297.8 | \$ 430.8 | \$ 299.1 | \$ 430.8 |
| 2006 junior convertible trust preferred securities ⁽¹⁾ | 214.8 | 300.0 | 215.7 | 300.0 |
| Total junior convertible securities | \$ 512.6 | \$ 730.8 | \$ 514.8 | \$ 730.8 |

(1)

Carrying value is accreted to the principal amount at maturity over an expected life of five years for the 2008 senior convertible notes and 30 years for each of the junior convertible trust preferred securities.

AFFILIATED MANAGERS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The principal terms of these securities are summarized below.

| | 2008 Senior Convertible Notes ⁽¹⁾ | 2007 Junior Convertible Trust Preferred Securities ⁽²⁾ | 2006 Junior Convertible Trust Preferred Securities ⁽³⁾ |
|-----------------------------------|---|--|--|
| Issue date | August 2008 | October 2007 | April 2006 |
| Maturity date | August 2038 | October 2037 | April 2036 |
| Next potential put date | August 2013 | N/A | N/A |
| Denomination | \$ 1,000 | \$ 50 | \$ 50 |
| Current conversion rate | 7.959 | 0.250 | 0.333 |
| Current conversion price | \$ 125.65 | \$ 200.00 | \$ 150.00 |
| Stated coupon | 3.95% | 5.15% | 5.10% |
| Coupon frequency | Semi-annually | Quarterly | Quarterly |
| Tax deduction rate ⁽⁴⁾ | 9.38% | 8.00% | 7.50% |

- (1) The Company may redeem the notes (subject to the holders' rights to convert) at any time on or after August 15, 2013. The holders may require the Company to repurchase the notes in August of 2013, 2018, 2023, 2028 and 2033. Should either of these events occur, the Company intends to satisfy its obligations with borrowings under its credit facility.
- (2) The Company may redeem the 2007 junior convertible trust preferred securities if the closing price of the Company's common stock exceeds \$260 per share for a specified period of time.
- (3) The Company may redeem the 2006 junior convertible trust preferred securities if the closing price of the Company's common stock exceeds \$195 per share for a specified period of time.
- (4) These convertible securities are considered contingent payment debt instruments under federal income tax regulations, which require the Company to deduct interest in an amount greater than its reported Interest expense. These deductions will result in deferred tax liabilities of approximately \$24.5 million in 2012. These deferred tax liabilities will be reclassified directly to stockholders' equity if the Company's common stock is trading above certain thresholds at the time of the conversion of the securities.

5. Forward Equity Sale Agreements

In August 2012, the Company amended its forward equity agreement to increase the shares of common stock it may sell to an aggregate of \$400.0 million. During the quarter ended September 30, 2012, the Company entered into contracts to sell a notional amount of \$136.8 million at an average share price of \$121.19. In October 2012, the Company entered into contracts to sell an additional notional amount of \$10.4 million at an average share price of \$123.88. The Company has the ability to settle the contracts either by delivering shares of common stock and receiving cash or net settling for cash or shares of common stock. All contracts remain outstanding.

AFFILIATED MANAGERS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Income Taxes

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

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|--|-------------|---|-------------|
| | 2011 | 2012 | 2011 | 2012 |
| Controlling Interests: | | | | |
| Current tax | \$ 1.9 | \$ 8.8 | \$ 31.9 | \$ 31.1 |
| Intangible related deferred taxes | 10.4 | 11.7 | 36.2 | 0.1 |
| Other deferred taxes | 6.2 | (1.2) | (1.6) | 4.9 |
| Total controlling interests | 18.5 | 19.3 | 66.5 | 36.1 |
| Non-Controlling Interests: | | | | |
| Current tax | 3.1 | 2.8 | 9.5 | 9.1 |
| Deferred taxes | (1.8) | (2.7) | (2.8) | 0.8 |
| Total non-controlling interests | 1.3 | 0.1 | 6.7 | 9.9 |
| Provision for income taxes | \$ 19.8 | \$ 19.4 | \$ 73.2 | \$ 46.0 |
| Income before income taxes (controlling interest) | \$ 58.6 | \$ 74.2 | \$ 191.1 | \$ 135.0 |
| Effective tax rate attributable to controlling interests ⁽¹⁾ | 31.6% | 26.0% | 34.8% | 26.7% |

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

A summary of the consolidated provision for income taxes is as follows:

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|----------------------------|--|-------------|---|-------------|
| | 2011 | 2012 | 2011 | 2012 |
| Current: | | | | |
| Federal | \$ (7.6) | \$ 0.8 | \$ 5.6 | \$ 3.2 |
| State | 1.6 | 3.0 | 6.5 | 8.1 |
| Foreign | 11.0 | 7.8 | 29.3 | 28.9 |
| Total current | 5.0 | 11.6 | 41.4 | 40.2 |
| Deferred: | | | | |
| Federal | 17.9 | 15.5 | 38.4 | 13.2 |
| State | 0.5 | 1.6 | 1.7 | 1.8 |
| Foreign | (3.6) | (9.2) | (8.3) | (9.2) |
| Total deferred | 14.8 | 7.9 | 31.8 | 5.8 |
| Provision for income taxes | \$ 19.8 | \$ 19.4 | \$ 73.2 | \$ 46.0 |

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During the three and nine months ended September 30, 2012, the Company recognized a deferred tax benefit of \$7.2 million (\$4.8 million attributable to the controlling interest) from the revaluation of its deferred taxes as a result of a reduction of corporate tax rates in the United Kingdom and reduced its deferred tax valuation allowance by \$3.1 million and \$8.3 million, respectively, primarily related to indirect tax benefits from foreign tax positions.

AFFILIATED MANAGERS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The components of deferred tax assets and liabilities are as follows:

| | December 31, 2011 | September 30, 2012 |
|---|----------------------|-----------------------|
| Deferred Tax Assets | | |
| State net operating loss carryforwards | \$ 26.5 | \$ 25.6 |
| Foreign tax credit carryforwards | 15.1 | 13.2 |
| Deferred compensation | 17.5 | 21.5 |
| Tax benefit of uncertain tax positions | 11.6 | 17.3 |
| Accrued expenses | 11.6 | 4.8 |
| Capital loss carryforwards | 1.5 | 1.6 |
| | | |
| Total deferred tax assets | 83.8 | 84.0 |
| Valuation allowance | (35.6) | (27.3) |
| | | |
| Deferred tax assets, net of valuation allowance | 48.2 | 56.7 |
| Deferred Tax Liabilities | | |
| Intangible asset amortization | (247.1) | \$ (263.7) |
| Convertible securities interest | (171.1) | (184.5) |
| Non-deductible intangible amortization | (127.2) | (121.7) |
| Deferred revenue | (5.6) | (5.3) |
| Other | (3.2) | (2.9) |
| | | |
| Total deferred tax liabilities | (554.2) | (578.1) |
| | | |
| Net deferred tax liability | \$ (506.0) | \$ (521.4) |

Deferred tax liabilities are primarily the result of tax deductions for the Company's intangible assets and convertible securities. The Company amortizes most of its intangible assets for tax purposes only, reducing its tax basis below its carrying value for financial statement purposes and generating deferred taxes each reporting period. The Company's 2008 senior convertible notes and junior convertible trust preferred securities also generate deferred tax liabilities because the Company's tax deductions are higher than the interest expense recorded for financial statement purposes.

At September 30, 2012, the Company has state net operating loss carryforwards that expire over a 15-year period beginning in 2012. The Company also has foreign tax credit carryforwards that expire over a 10-year period beginning in 2012. The valuation allowances at December 31, 2011 and September 30, 2012 were principally related to the Company's projections of taxable income prior to the expiration of these state and federal carryforwards.

As of September 30, 2012 the Company carried a liability for uncertain tax positions of \$27.9 million, including \$2.4 million for interest and related charges and \$16.2 million for foreign positions that would generate tax benefits in the United States, if settled. The Company anticipates this liability will decrease by approximately \$5.0 million in the fourth quarter through the recognition of tax benefits from the transfer of interests in an Affiliate. The Company does not anticipate any other significant changes in this liability over the next twelve months.

The Company periodically has tax examinations in the United States 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.

AFFILIATED MANAGERS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. 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 September 30, | | For the Nine Months Ended September 30, | |
|--|--|---------|---|---------|
| | 2011 | 2012 | 2011 | 2012 |
| Numerator | | | | |
| Net income (controlling interest), as adjusted | \$ 40.1 | \$ 54.9 | \$ 124.6 | \$ 98.9 |
| Denominator | | | | |
| Average shares outstanding basic | 51.9 | 51.7 | 51.9 | 51.6 |
| Effect of dilutive instruments: | | | | |
| Stock options and other awards | 1.1 | 1.3 | 1.3 | 1.3 |
| Average shares outstanding diluted | 53.0 | 53.0 | 53.2 | 52.9 |

As more fully discussed in Note 4, the Company had convertible securities outstanding during the periods presented and is required to apply the if-converted method to these securities in its calculation of diluted earnings per share. Under the if-converted method, shares that are issuable upon conversion are deemed outstanding, regardless of whether the securities are contractually convertible into the Company's common stock at that time. For this calculation, the interest expense (net of tax) attributable to these dilutive securities is added back to Net income (controlling interest), reflecting the assumption that the securities have been converted. Issuable shares for these securities and related interest expense are excluded from the calculation if an assumed conversion would be anti-dilutive to diluted earnings per share.

During the nine months ended September 30, 2012, the Company repurchased approximately 0.6 million shares of common stock under the share repurchase programs approved by the Company's Board of Directors. No shares were repurchased during the three months ended September 30, 2012.

The diluted earnings per share calculations in the table above exclude the anti-dilutive effect of the following shares:

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|--|------|---|------|
| | 2011 | 2012 | 2011 | 2012 |
| Stock options and other awards | 1.2 | 0.6 | 1.2 | 0.6 |
| Senior convertible securities | 3.7 | 3.7 | 3.7 | 3.7 |
| Junior convertible trust preferred securities | 4.2 | 4.2 | 4.2 | 4.2 |
| Forward equity sales | | 0.3 | | 0.3 |

As discussed further in Note 19, the Company may settle portions of its Affiliate equity purchases in shares of its common stock. Because it is the Company's intent to settle these potential repurchases in cash, the calculation of diluted earnings per share excludes any potential dilutive effect from possible share settlements.

AFFILIATED MANAGERS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. Commitments and Contingencies

The Company and its Affiliates are subject to claims, legal proceedings and other contingencies in the ordinary course of their business activities. Each of these matters is subject to various uncertainties, and it is possible that some of these matters may be resolved in a manner unfavorable to the Company or its Affiliates. The Company and its Affiliates establish accruals for matters for which the outcome is probable and the amount of the liability can be reasonably estimated. Management believes that any liability in excess of these accruals upon the ultimate resolution of these matters will not have a material adverse effect on the Company.

Certain Affiliates operate under regulatory authorities which require that they maintain minimum financial or capital requirements. Management is not aware of any significant violations of such financial requirements occurring during the period.

In connection with its investment in Pantheon Ventures, the Company has committed to co-invest in certain investment partnerships where it serves as the general partner. As of September 30, 2012, these commitments totaled approximately \$75.1 million and may be called in future periods. The prior owner of Pantheon Ventures is contractually obligated to reimburse the Company for \$39.5 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 \$755.5 million through 2017. As of September 30, 2012, the Company expects to make payments of \$279.5 million to settle these contingent obligations (including \$182.6 million related to the Company's equity method investments). The net present value of the expected payments for consolidated Affiliates totals \$69.2 million as of September 30, 2012. The Company expects to make \$85.4 million of payments in the fourth quarter of 2012. During the first half of 2012, the Company recognized a gain of \$57.3 million (\$39.6 million attributable to the controlling interest) as a result of changes to expected payments for consolidated Affiliates. This gain has been classified within Imputed interest expense and contingent payment arrangements in the Consolidated Statements of Income.

9. Investments*Investments in Marketable Securities*

Investment in marketable securities at December 31, 2011 and September 30, 2012 were \$100.4 million and \$109.9 million, respectively. These investments are comprised of the Company's investments in Value Partners Group Limited ("Value Partners"), a publicly-traded asset management firm based in Hong Kong, and investments held by Affiliates.

Available-for-Sale Investments

The following is a summary of the cost, gross unrealized gains and losses and fair value of investments classified as available-for-sale at December 31, 2011 and September 30, 2012:

December 31, 2011

| | Gross Unrealized | | | Fair Value |
|-------------------|------------------|--------|-----------|------------|
| | Cost | Gains | Losses | |
| Equity securities | \$ 97.6 | \$ 1.4 | \$ (12.7) | \$ 86.3 |

AFFILIATED MANAGERS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

September 30, 2012

| | Gross Unrealized | | | Fair Value |
|-------------------|------------------|--------|-----------|------------|
| | Cost | Gains | Losses | |
| Equity securities | \$ 101.1 | \$ 1.6 | \$ (13.9) | \$ 88.8 |

As of September 30, 2012, the Company has invested \$67.1 million in Value Partners, representing 7.8% of the outstanding common stock. In the second quarter of 2012, the investment in Value Partners declined, resulting in an unrealized loss. The Company intends to hold this investment for a reasonable period of time sufficient for a forecasted recovery of fair value.

The following is a summary of the Company's realized gains and losses on investments classified as available-for-sale:

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|--------------------|--|--------|---|--------|
| | 2011 | 2012 | 2011 | 2012 |
| Gains | \$ | \$ 0.1 | \$ 0.2 | \$ 0.1 |
| Losses | | | | |
| Net realized gains | \$ | \$ 0.1 | \$ 0.2 | \$ 0.1 |

Trading Securities

The following is a summary of the cost, gross unrealized gains and losses and fair value of investments classified as trading securities at December 31, 2011 and September 30, 2012:

December 31, 2011

| | Gross Unrealized | | | Fair Value |
|-------------------|------------------|--------|----------|------------|
| | Cost | Gains | Losses | |
| Equity securities | \$ 13.5 | \$ 0.9 | \$ (0.3) | \$ 14.1 |

September 30, 2012

| | Gross Unrealized | | | Fair Value |
|-------------------|------------------|---------|----------|------------|
| | Cost | Gains | Losses | |
| Equity securities | \$ 11.4 | \$ 10.8 | \$ (1.1) | \$ 21.1 |

AFFILIATED MANAGERS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following is a summary of the Company's realized gains and losses on investments classified as trading securities:

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|--------------------|--|--------|---|--------|
| | 2011 | 2012 | 2011 | 2012 |
| Gains | \$ 0.1 | \$ 0.2 | \$ 0.5 | \$ 0.8 |
| Losses | | 0.0 | (0.3) | (0.3) |
| Net realized gains | \$ 0.1 | \$ 0.2 | \$ 0.2 | \$ 0.5 |

Other Investments

Other investments consist of investments in funds advised by Affiliates. As of December 31, 2011 and September 30, 2012, the Company's other investments were \$145.3 million and \$153.6 million, respectively. These assets are reported within Prepaid expenses and other current assets (\$31.2 million and \$23.3 million at December 31, 2011 and September 30, 2012, respectively) and Other assets (\$114.1 million and \$130.3 million at December 31, 2011 and September 30, 2012, respectively) in the Consolidated Balance Sheets. The income or loss related to these investments is classified within Investment and other income in the Consolidated Statements of Income.

10. Fair Value Measurements

The Company determines the fair value of certain investment securities and other financial and nonfinancial assets and liabilities. Fair value is determined based on the price that would be received for an asset or paid to transfer a liability in the principal market for the asset or liability, or absent a principal market, the most advantageous market for the asset or liability, utilizing a hierarchy of three different valuation techniques:

Level 1 Unadjusted quoted market prices for identical instruments in active markets;

Level 2 Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs, or significant value drivers, are observable; and

Level 3 Prices reflect the Company's own assumptions concerning unobservable inputs to the valuation model. These inputs require significant management judgment and reflect the Company's assumptions that market participants would use in pricing the asset or liability.

AFFILIATED MANAGERS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

| | December 31, 2011 | Fair Value Measurements | | |
|---|----------------------|-------------------------|---------|---------|
| | | Level 1 | Level 2 | Level 3 |
| Financial Assets | | | | |
| Cash equivalents | \$ 23.2 | \$ 23.2 | \$ | \$ |
| Investments in marketable securities ⁽¹⁾ | | | | |
| Trading securities | 14.1 | 14.1 | | |
| Available-for-sale securities | 86.3 | 86.3 | | |
| Other investments ⁽²⁾ | 145.3 | 31.1 | 10.8 | 103.4 |
| Financial Liabilities | | | | |
| Contingent payment arrangements ⁽³⁾ | \$ 87.1 | \$ | \$ | \$ 87.1 |
| Obligations to related parties ⁽⁴⁾ | 92.0 | | | 92.0 |
| Interest rate derivatives ⁽⁵⁾ | 2.9 | | 2.9 | |

| | September 30, 2012 | Fair Value Measurements | | |
|---|-----------------------|-------------------------|---------|---------|
| | | Level 1 | Level 2 | Level 3 |
| Financial Assets | | | | |
| Cash equivalents | \$ 18.7 | \$ 18.7 | \$ | \$ |
| Investments in marketable securities ⁽¹⁾ | | | | |
| Trading securities | 21.1 | 21.1 | | |
| Available-for-sale securities | 88.8 | 88.8 | | |
| Other investments ⁽²⁾ | 153.6 | 18.2 | 18.7 | 116.7 |
| Financial Liabilities | | | | |
| Contingent payment arrangements ⁽³⁾ | \$ 66.0 | \$ | \$ | \$ 66.0 |
| Obligations to related parties ⁽⁴⁾ | 75.8 | | | 75.8 |
| Interest rate derivatives ⁽⁵⁾ | 4.3 | | 4.3 | |

- (1) Principally investments in equity securities.
- (2) Other investments are reported within Prepaid expenses and other current assets and Other assets.
- (3) Net present value of expected payments under contingent payment arrangements are reported in Accounts payable and accrued liabilities and Other long-term liabilities.
- (4) Obligations to related parties are presented within Payables to related party and Other long-term liabilities.
- (5) Interest rate derivatives are presented within Other long-term liabilities.

The following is a description of the significant assets and liabilities measured at fair value and the fair value methodologies used.

Cash equivalents consist primarily of highly liquid investments in money market funds. Cash investments in actively traded money market funds are classified as Level 1.

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Investments in marketable securities consist primarily of investments in publicly traded securities and in funds advised by Affiliates which are valued using net asset value ("NAV"). Publicly traded securities and investments in actively traded funds that calculate daily NAVs are classified as Level 1.

AFFILIATED MANAGERS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Other investments are valued using NAV. Investments in actively traded funds that calculate daily 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 Level 3. The fair value of Level 3 assets is determined using NAV one quarter in arrears (adjusted for current period calls and distributions).

Interest rate derivatives include interest rate swaps. The fair value of these assets is determined by model-derived valuations in which all significant inputs were observable in active markets.

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

Obligations to related parties include agreements to repurchase Affiliate equity and liabilities offsetting certain investments which are held by the Company but economically attributable to a related party. The significant unobservable inputs used in the fair value measurement of the agreements to repurchase Affiliate equity are growth and discount rates. Increases in the growth rate would result in a higher obligation while an increase in the discount rate would result 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.

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

| Quantitative Information about Level 3 Fair Value Measurements | | | | |
|--|--|-------------------------|-----------------------|--------------------|
| | Fair Value at September 30, 2012 | Valuation Techniques | Unobservable Input | Range |
| Contingent payment arrangements | \$ 66.0 | Discounted cash flow | Growth rates | 2.0% - 10.0% |
| | | | Discount rates | 15.0% - 18.0% |
| Affiliate equity repurchase obligations | 9.8 | Discounted cash flow | Growth rates | (10.0%) - 17.0% |
| | | | Discount rates | 17.5% - 24.0% |

AFFILIATED MANAGERS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table presents the changes in Level 3 financial assets and financial liabilities for the three and nine months ended September 30, 2011 and 2012:

| Level 3 Financial Assets and Financial Liabilities at Fair Value | | | | | | | |
|--|---------------------------------------|---------------------------------|--|-------------------------------|----------------------------------|--|------------------------------|
| Three Months Ended | Balance, beginning of period | Net realized gains/losses | Net unrealized gains/losses relating to instruments still held at the reporting date | Purchases and issuances | Settlements and reductions | Net transfers in and/or out of Level 3 | Balance, end of period |
| | | | | | | | |
| Other investments | \$ 102.0 | \$ (0.3) ⁽¹⁾ | \$ 3.5 ⁽¹⁾ | \$ 4.2 | \$ (2.1) | \$ | \$ 107.3 |
| Contingent payment arrangements | 85.3 | | 2.0 ⁽²⁾ | | | | 87.3 |
| Obligations to related parties | 71.2 | 0.8 ⁽³⁾ | (0.4) ⁽³⁾ | 8.5 | (8.5) | | 71.6 |

| Level 3 Financial Assets and Financial Liabilities at Fair Value | | | | | | | |
|--|---------------------------------------|---------------------------------|--|-------------------------------|----------------------------------|--|------------------------------|
| Three Months Ended | Balance, beginning of period | Net realized gains/losses | Net unrealized gains/losses relating to instruments still held at the reporting date | Purchases and issuances | Settlements and reductions | Net transfers in and/or out of Level 3 | Balance, end of period |
| | | | | | | | |
| Other investments | \$ 113.0 | \$ (0.1) ⁽¹⁾ | \$ 1.6 ⁽¹⁾ | \$ 3.5 | \$ (1.3) | \$ | \$ 116.7 |
| Contingent payment arrangements | 62.5 | | 3.5 ⁽²⁾ | | | | 66.0 |
| Obligations to related parties | 79.5 | 0.5 ⁽³⁾ | 0.2 ⁽³⁾ | 1.7 | (6.1) | | 75.8 |

| Level 3 Financial Assets and Financial Liabilities at Fair Value | | | | | | | |
|--|---------------------------------------|---------------------------------|--|-------------------------------|----------------------------------|--|------------------------------|
| Nine Months Ended | Balance, beginning of period | Net realized gains/losses | Net unrealized gains/losses relating to instruments still held at the reporting date | Purchases and issuances | Settlements and reductions | Net transfers in and/or out of Level 3 | Balance, end of period |
| | | | | | | | |
| Other investments | \$ 85.8 | \$ 0.7 ⁽¹⁾ | \$ 14.0 ⁽¹⁾ | \$ 12.8 | \$ (6.0) | \$ | \$ 107.3 |
| Contingent payment arrangements | 77.6 | | 11.4 ⁽²⁾ | | (1.7) | | 87.3 |
| Obligations to related parties | 79.6 | 1.4 ⁽³⁾ | 3.2 ⁽³⁾ | 21.5 | (34.1) | | 71.6 |

| Level 3 Financial Assets and Financial Liabilities at Fair Value | | | | | | | |
|--|---------------------------------------|---------------------------------|--|-------------------------------|----------------------------------|--|------------------------------|
| Nine Months Ended | Balance, beginning of period | Net realized gains/losses | Net unrealized gains/losses relating to instruments still held at the reporting date | Purchases and issuances | Settlements and reductions | Net transfers in and/or out of Level 3 | Balance, end of period |
| | | | | | | | |

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| | | | | | | | | | | | | |
|---------------------------------|----|-------|----|----------------------|----|-----------------------|----|------|----|--------|----|-------|
| Other investments | \$ | 103.4 | \$ | (1.7) ⁽¹⁾ | \$ | 7.7 ⁽¹⁾ | \$ | 13.4 | \$ | (6.1) | \$ | 116.7 |
| Contingent payment arrangements | | 87.1 | | | | (45.9) ⁽²⁾ | | 24.8 | | | | 66.0 |
| Obligations to related parties | | 92.0 | | 0.9 ⁽³⁾ | | 0.9 ⁽³⁾ | | 22.1 | | (40.1) | | 75.8 |

-
- (1) Gains and losses on Other investments are recorded in Investment and other income.
- (2) Accretion and changes to payment estimates under the Company's contingent payment arrangements are recorded in Imputed interest expense and contingent payment arrangements and foreign currency translation adjustments related to such arrangements are recorded as Other comprehensive income.
- (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.

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. During the three months ended September 30, 2012, no financial assets were transferred from Level 1 to Level 2. During the nine months ended September 30, 2012, financial assets valued at \$2.0 million were transferred from Level 1 to Level 2. There were no significant transfers of financial assets or liabilities in the three and nine months ended September 30, 2011.

AFFILIATED MANAGERS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company relies on the NAV of certain investments as their fair value. The NAVs have been derived from the fair values of the underlying investments as of the measurement dates. The following table summarizes, as of December 31, 2011 and September 30, 2012, the nature of these investments and any related liquidation restrictions or other factors which may impact the ultimate value realized:

| Category of Investment | December 31, 2011 | | September 30, 2012 | |
|---|-------------------|----------------------|--------------------|----------------------|
| | Fair Value | Unfunded Commitments | Fair Value | Unfunded Commitments |
| Private equity fund-of-funds ⁽¹⁾ | \$ 103.4 | \$ 80.5 | \$ 116.7 | \$ 75.1 |
| Other funds ⁽²⁾ | 47.2 | | 71.1 | |
| | \$ 150.6 | \$ 80.5 | \$ 187.8 | \$ 75.1 |

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

There are no current plans to sell any of these investments.

The carrying value of senior bank debt approximates fair value because the debt is a credit facility with variable interest based on selected short-term rates. The fair market value of the 2042 Senior Notes at September 30, 2012 was \$206.4 million. The fair market value of the 2008 senior convertible notes and the junior convertible trust preferred securities at December 31, 2011 were \$500.0 million and \$594.3 million, respectively. The fair market value of the 2008 senior convertible notes and the junior convertible trust preferred securities at September 30, 2012 were \$516.6 million and \$708.5 million, respectively. The senior bank debt, senior notes, senior convertible notes and junior convertible securities are classified as Level 2 because the fair value was determined utilizing observable inputs in non-active markets.

11. Variable Interest Entities

Sponsored Investment Funds

The Company's Affiliates act as the investment manager for certain investment funds that are considered variable interest entities ("VIEs"). In addition to an Affiliate's involvement as the investment manager, Affiliates may also hold investments in these products. Affiliates are not the primary beneficiary 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 fund's assets under management. As a result, the Company's variable interests will not absorb the majority of the variability of the entity's net assets and therefore the Company has not consolidated these entities.

Trust Preferred Vehicles

The Company established wholly-owned trusts in connection with the 2006 and 2007 issuances of junior convertible trust preferred securities. These entities are considered VIEs and the Company is not the primary beneficiary, therefore these entities are not consolidated in the Company's financial statements.

AFFILIATED MANAGERS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

| Category of Investment | December 31, 2011 | | September 30, 2012 | |
|----------------------------|----------------------------------|---|----------------------------------|---|
| | 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 | \$ 3,618.4 | \$ 1.1 | \$ 5,972.4 | \$ 1.7 |
| Trust preferred vehicles | 9.0 | 9.0 | 9.0 | 9.0 |

12. Related Party Transactions

The Company periodically records amounts receivable and payable to Affiliate partners in connection with the transfer of Affiliate equity interests. The Company also has liabilities to related parties for deferred purchase price and contingent payment arrangements in connection with certain business combinations as well as liabilities offsetting certain investments which are held by the Company but economically attributable to a related party.

The total receivable at December 31, 2011 was \$41.3 million, of which \$1.4 million is included in Prepaid expenses and other current assets and \$39.9 million is included in Other assets. The total receivable at September 30, 2012 was \$38.6 million, of which \$3.7 million is included in Prepaid expenses and other current assets and \$34.9 million is included in Other assets. The total payable as of December 31, 2011 was \$147.5 million, of which \$33.2 million is included in current liabilities and \$114.3 million is included in Other long-term liabilities. The total payable as of September 30, 2012 was \$128.7 million, of which \$10.7 million is included in current liabilities and \$118.0 million is included in Other long-term liabilities.

In certain cases, Affiliate management owners and Company officers may serve as trustees or directors of certain mutual funds from which the Affiliate earns advisory fee revenue.

13. Stock Option and Incentive Plans

The following summarizes the transactions of the Company's stock option and incentive plans for the nine months ended September 30, 2012:

| | Stock Options | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life (years) |
|--|---------------|--|---|
| Unexercised options outstanding January 1, 2012 | 5.1 | \$ 68.18 | |
| Options granted | 0.0 | 104.25 | |
| Options exercised | (0.9) | 52.57 | |
| Options forfeited | 0.0 | 116.35 | |
| Unexercised options outstanding September 30, 2012 | 4.2 | 71.61 | 4.1 |
| Exercisable at September 30, 2012 | 2.1 | 65.81 | 3.3 |

AFFILIATED MANAGERS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company's Net income (controlling interest) for the three and nine months ended September 30, 2011 includes compensation expense of \$4.5 million and \$11.9 million, respectively (net of income tax benefits of \$2.8 million and \$7.4 million, respectively) related to the Company's Stock Option and Incentive, Executive Incentive, Long-Term Equity Interests and Deferred Compensation Plans as compared to compensation expense of \$5.0 million and \$14.9 million, (net of income tax benefits of \$3.1 million and \$9.2 million) for the three and nine months ended September 30, 2012. As of September 30, 2012, the Company expects to recognize compensation expense related to these share-based compensation arrangements of \$56.7 million over a weighted average period of approximately three years (assuming no forfeitures). As of September 30, 2012, no outstanding options have expiration dates prior to the end of 2012.

14. Derivative Financial Instruments

From time to time, the Company seeks to offset its exposure to changing interest rates under its debt financing arrangements by entering into interest rate hedging contracts. The Company does not hold or issue derivative financial instruments for speculative purposes.

In 2010, the Company entered into interest rate swap contracts as summarized in the table below:

| | Notional Amount | Paying | Receiving | Start Date | Expiration Date |
|----------------|--------------------|--------|------------------|--------------|-----------------|
| Counterparty A | \$ 25.0 | 1.67% | 3-Month LIBOR | October 2010 | October 2015 |
| Counterparty A | \$ 25.0 | 1.65% | 3-Month LIBOR | October 2010 | October 2015 |
| Counterparty B | \$ 25.0 | 1.59% | 3-Month LIBOR | October 2010 | October 2015 |
| Counterparty B | \$ 25.0 | 2.14% | 3-Month LIBOR | October 2010 | October 2017 |

In prior years, the Company entered into treasury rate lock contracts which were settled in 2011 for a net pre-tax loss of \$0.7 million. The net loss on these contracts is reflected as a component of Other comprehensive income and will be reclassified to earnings over the life of the 2022 Senior Notes.

The Company's derivative contracts contain provisions that may require the Company or the counterparties to post collateral based upon the current fair value of the derivative contracts. As of September 30, 2012, the Company had posted collateral of \$5.3 million related to its interest rate swap contracts.

The Company records all derivative instruments on the balance sheet at fair value. As cash flow hedges, the effective portion of the unrealized gain or loss on the derivative instruments is recorded in accumulated other comprehensive income as a separate component of stockholders' equity. Hedge effectiveness is measured by comparing the present value of the cumulative change in the expected future variable cash flows of the hedged contract with the present value of the cumulative change in the expected future variable cash flows of the hedged item. To the extent that the critical terms of the hedged item and the derivative are not identical, hedge ineffectiveness would be reported in earnings as Interest expense. Hedge ineffectiveness was not material in any periods presented.

AFFILIATED MANAGERS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following summarizes the amount of derivative instrument gains and losses (before taxes) reported in the Consolidated Statements of Comprehensive Income:

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|-------------------------|--|----------|---|----------|
| | 2011 | 2012 | 2011 | 2012 |
| Cash Flow Hedges | | | | |
| Interest rate swaps | \$ (3.6) | \$ (0.5) | \$ (5.4) | \$ (1.4) |
| Treasury rate locks | (6.7) | | (6.2) | |
| Total | \$ (10.3) | \$ (0.5) | \$ (11.6) | \$ (1.4) |

The following summarizes the location and fair values of derivative instruments on the Consolidated Balance Sheets:

| | December 31, 2011 | September 30, 2012 |
|------------------------------------|----------------------|-----------------------|
| Cash Flow Hedges | | |
| Interest rate swaps ⁽¹⁾ | \$ (2.9) | \$ (4.3) |

(1) Presented within Other long-term liabilities.

15. Segment Information

Management has assessed and determined that the Company operates in three business segments representing the Company's three principal distribution channels: Mutual Fund, Institutional and High Net Worth, each of which has different client relationships.

Revenue in the Mutual Fund distribution channel is earned from advisory and sub-advisory relationships with all domestically-registered investment products as well as non-institutional investment products that are registered abroad. Revenue in the Institutional distribution channel is earned from relationships with public and private client entities, including pension plans, foundations, endowments and sovereign wealth funds. Revenue in the High Net Worth distribution channel is earned from relationships with wealthy individuals, family trusts and managed account programs.

Revenue earned from client relationships managed by Affiliates accounted for under the equity method is not consolidated with the Company's reported Revenue but instead is included (net of operating expenses, including amortization) in Income from equity method investments, and reported in the distribution channel in which the Affiliate operates. Income tax attributable to the profits of the Company's equity method Affiliates is reported within the Company's consolidated income tax provision.

In firms with revenue sharing arrangements, a certain percentage of revenue is allocated for use by management of an Affiliate in paying operating expenses of that Affiliate, including salaries and bonuses, and is called an "Operating Allocation." In reporting segment operating expenses, Affiliate expenses are allocated to a particular segment on a pro rata basis with respect to the revenue generated by that Affiliate in such segment. Generally, as revenue increases, additional compensation is typically paid to Affiliate management partners from the Operating Allocation. As a result, the contractual expense allocation pursuant to a revenue sharing arrangement may result in the

AFFILIATED MANAGERS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

characterization of any growth in profit margin beyond the Company's Owners' Allocation as an operating expense. All other operating expenses (excluding intangible amortization) and interest expense have been allocated to segments based on the proportion of cash flow distributions reported by Affiliates in each segment.

Statements of Income

For the Three Months Ended September 30, 2011

| | Mutual Fund | Institutional | High Net Worth | Total |
|---|-------------|---------------|----------------|----------|
| Revenue | \$ 179.0 | \$ 199.6 | \$ 35.2 | \$ 413.8 |
| Operating expenses: | | | | |
| Depreciation, intangible amortization and impairments | 4.2 | 19.8 | 2.1 | 26.1 |
| Other operating expenses | 119.3 | 120.9 | 21.5 | 261.7 |
| | 123.5 | 140.7 | 23.6 | 287.8 |
| Operating income | 55.5 | 58.9 | 11.6 | 126.0 |
| Non-operating (income) and expenses: | | | | |
| Investment and other loss | 5.5 | 2.6 | 1.4 | 9.5 |
| Income from equity method investments | (2.0) | (6.6) | (1.2) | (9.8) |
| Interest expense | 6.1 | 10.3 | 1.7 | 18.1 |
| Imputed interest and contingent payment arrangements | 4.7 | 3.1 | 0.5 | 8.3 |
| | 14.3 | 9.4 | 2.4 | 26.1 |
| Income before income taxes | 41.2 | 49.5 | 9.2 | 99.9 |
| Income taxes | 8.1 | 9.5 | 2.2 | 19.8 |
| Net income | 33.1 | 40.0 | 7.0 | 80.1 |
| Net income (non-controlling interests) | (14.7) | (22.3) | (3.0) | (40.0) |
| Net income (controlling interest) | \$ 18.4 | \$ 17.7 | \$ 4.0 | \$ 40.1 |

AFFILIATED MANAGERS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Three Months Ended September 30, 2012

| | Mutual Fund | Institutional | High Net Worth | Total |
|---|-------------|---------------|----------------|----------|
| Revenue | \$ 208.3 | \$ 210.7 | \$ 48.3 | \$ 467.3 |
| Operating expenses: | | | | |
| Depreciation, intangible amortization and impairments | 5.4 | 19.0 | 3.1 | 27.5 |
| Other operating expenses | 139.1 | 131.5 | 29.5 | 300.1 |
| | 144.5 | 150.5 | 32.6 | 327.6 |
| Operating income | 63.8 | 60.2 | 15.7 | 139.7 |
| Non-operating (income) and expenses: | | | | |
| Investment and other income | (3.2) | (2.8) | (0.9) | (6.9) |
| Income from equity method investments | (3.2) | (14.8) | (1.4) | (19.4) |
| Interest expense | 7.5 | 12.0 | 2.3 | 21.8 |
| Imputed interest and contingent payment arrangements | 3.2 | 3.0 | 0.5 | 6.7 |
| | 4.3 | (2.6) | 0.5 | 2.2 |
| Income before income taxes | 59.5 | 62.8 | 15.2 | 137.5 |
| Income taxes | 7.5 | 9.4 | 2.5 | 19.4 |
| Net income | 52.0 | 53.4 | 12.7 | 118.1 |
| Net income (non-controlling interests) | (27.3) | (28.5) | (7.4) | (63.2) |
| Net income (controlling interest) | \$ 24.7 | \$ 24.9 | \$ 5.3 | \$ 54.9 |

AFFILIATED MANAGERS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Nine Months Ended September 30, 2011

| | Mutual Fund | Institutional | High Net Worth | Total |
|---|-------------|---------------|----------------|------------|
| Revenue | \$ 555.7 | \$ 640.6 | \$ 106.1 | \$ 1,302.4 |
| Operating expenses: | | | | |
| Depreciation, intangible amortization and impairments | 12.3 | 59.3 | 6.3 | 77.9 |
| Other operating expenses | 375.7 | 392.0 | 65.9 | 833.6 |
| | 388.0 | 451.3 | 72.2 | 911.5 |
| Operating income | 167.7 | 189.3 | 33.9 | 390.9 |
| Non-operating (income) and expenses: | | | | |
| Investment and other (income) loss | 2.0 | (6.9) | 11.7 | 6.8 |
| Income from equity method investments | (2.5) | (34.2) | (3.4) | (40.1) |
| Interest expense | 18.0 | 32.5 | 5.1 | 55.6 |
| Imputed interest and contingent payment arrangements | 13.6 | 9.8 | 1.5 | 24.9 |
| | 31.1 | 1.2 | 14.9 | 47.2 |
| Income before income taxes | 136.6 | 188.1 | 19.0 | 343.7 |
| Income taxes | 30.8 | 39.8 | 2.6 | 73.2 |
| Net income | 105.8 | 148.3 | 16.4 | 270.5 |
| Net income (non-controlling interests) | (52.0) | (82.0) | (11.9) | (145.9) |
| Net income (controlling interest) | \$ 53.8 | \$ 66.3 | \$ 4.5 | \$ 124.6 |

AFFILIATED MANAGERS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Nine Months Ended September 30, 2012

| | Mutual Fund | Institutional | High Net Worth | Total |
|---|-------------|---------------|----------------|------------|
| Revenue | \$ 557.4 | \$ 636.8 | \$ 120.3 | \$ 1,314.5 |
| Operating expenses: | | | | |
| Depreciation, intangible amortization and impairments | 115.1 | 57.8 | 6.8 | 179.7 |
| Other operating expenses | 385.2 | 400.9 | 75.2 | 861.3 |
| | 500.3 | 458.7 | 82.0 | 1,041.0 |
| Operating income | 57.1 | 178.1 | 38.3 | 273.5 |
| Non-operating (income) and expenses: | | | | |
| Investment and other income | (7.5) | (10.9) | (1.9) | (20.3) |
| Income from equity method investments | (8.5) | (34.6) | (4.2) | (47.3) |
| Interest expense | 19.5 | 33.7 | 5.6 | 58.8 |
| Imputed interest and contingent payment arrangements | (24.7) | (12.1) | 1.1 | (35.7) |
| | (21.2) | (23.9) | 0.6 | (44.5) |
| Income before income taxes | 78.3 | 202.0 | 37.7 | 318.0 |
| Income taxes | | 39.2 | 6.8 | 46.0 |
| Net income | 78.3 | 162.8 | 30.9 | 272.0 |
| Net income (non-controlling interests) | (70.0) | (85.8) | (17.3) | (173.1) |
| Net Income (controlling interest) | \$ 8.3 | \$ 77.0 | \$ 13.6 | \$ 98.9 |

Balance Sheet Information

| | | | | |
|---------------------------------------|------------|------------|----------|------------|
| Total assets as of December 31, 2011 | \$ 1,920.6 | \$ 2,836.2 | \$ 462.1 | \$ 5,218.9 |
| Total assets as of September 30, 2012 | \$ 2,367.5 | \$ 3,029.5 | \$ 633.8 | \$ 6,030.8 |

16. Business Combinations

On June 29, 2012, the Company completed majority investments in Veritable, LP ("Veritable") and Yacktman Asset Management Co. ("Yacktman").

The Company's purchase price allocation for Veritable is provisional and was performed using a financial model that includes assumptions of expected market performance, net client cash flows and discount rates. These provisional amounts may be revised upon completion of the final valuation. The excess of the enterprise value over the net assets acquired was recorded as goodwill, of which 100% was attributed to the Company's High Net Worth segment. The consideration paid (less net tangible assets acquired) will be deductible for U.S. tax purposes over a 15-year life.

The Company's purchase price allocation for Yacktman is provisional and was performed using a financial model that includes assumptions of expected market performance, net client cash flows and discount rates. These provisional amounts may be revised upon completion of the final valuation. The excess of the enterprise value over the net assets acquired was recorded as goodwill, of which 91% and 9% was attributed to the Company's Mutual Fund and High Net Worth segments, respectively. The consideration paid (less net tangible assets acquired) will be deductible for U.S. tax purposes over a 15-year life. As part of this investment, the Company is contingently liable to make payments of up to \$75.0 million over the next three to five years upon the achievement of specified revenue targets. The

AFFILIATED MANAGERS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Company projects contingent payments totaling \$52.6 million, and as of September 30, 2012, the present value of these payments was \$24.8 million.

The provisional purchase price allocations for these investments are as follows:

| | Veritable | Yacktman |
|--------------------------------|-----------|----------|
| Consideration paid | \$ 116.8 | \$ 301.0 |
| Non-controlling interests | 30.8 | 213.3 |
| Contingent payment obligations | | 24.8 |
| Enterprise value | \$ 147.6 | \$ 539.1 |
| Acquired client relationships | \$ 85.1 | \$ 367.5 |
| Tangible assets, net | 2.7 | 9.0 |
| Goodwill | 59.8 | 162.6 |
| | \$ 147.6 | \$ 539.1 |

Unaudited pro forma financial results are set forth below, giving consideration to the investments and acquisitions in 2012, as if such transactions occurred as of January 1, 2011, assuming the revenue sharing arrangements had been in effect for the entire period and after making certain other pro forma adjustments.

| | For the Nine Months Ended September 30, | |
|-----------------------------------|--|------------|
| | 2011 | 2012 |
| Revenue | \$ 1,378.3 | \$ 1,390.0 |
| Net income (controlling interest) | 134.8 | 111.0 |
| Earnings per share basic | \$ 2.60 | \$ 2.15 |
| Earnings per share diluted | \$ 2.53 | \$ 2.10 |

The unaudited pro forma financial results are not necessarily indicative of the financial results had the investments been consummated at the beginning of the periods presented, nor are they necessarily indicative of the financial results expected in future periods. The pro forma financial results do not include the impact of transaction and integration related costs or benefits that may be expected to result from these investments.

New Affiliate investments during the nine months ended September 30, 2012, contributed \$43.2 million and \$7.0 million to the Company's revenue and earnings, respectively, for the nine months ended September 30, 2012.

17. Goodwill and Acquired Client Relationships

The following table presents the change in goodwill during the nine months ended September 30, 2012:

| | Mutual Fund | Institutional | High Net Worth | Total |
|-----------------------------------|-------------|---------------|----------------|------------|
| Balance, as of December 31, 2011 | \$ 785.0 | \$ 1,071.4 | \$ 260.9 | \$ 2,117.3 |
| Goodwill acquired | 147.6 | 0.2 | 74.6 | 222.4 |
| Foreign currency translation | 2.9 | 6.7 | 4.0 | 13.6 |
| Balance, as of September 30, 2012 | \$ 935.5 | \$ 1,078.3 | \$ 339.5 | \$ 2,353.3 |

AFFILIATED MANAGERS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table presents the changes in and the components of acquired client relationships at the Company's consolidated Affiliates during the nine months ended September 30, 2012:

| | Acquired Client Relationships | | | | |
|----------------------------------|-------------------------------|---|----------------|---------------------------------|----------------------|
| | Gross Book Value | Definite-lived Accumulated Amortization | Net Book Value | Indefinite-lived Net Book Value | Total Net Book Value |
| Balance as of December 31, 2011 | \$ 970.5 | \$ (317.0) | \$ 653.5 | \$ 667.6 | \$ 1,321.1 |
| New Investments | 131.1 | | 131.1 | 321.5 | 452.6 |
| Amortization and impairment | | (66.9) | (66.9) | (102.2) | (169.1) |
| Foreign currency translation | 1.3 | | 1.3 | 9.4 | 10.7 |
| Transfer | 38.2 | | 38.2 | (38.2) | |
| Balance as of September 30, 2012 | \$ 1,141.1 | \$ (383.9) | \$ 757.2 | \$ 858.1 | \$ 1,615.3 |

During the first half of 2012, the Company determined that the fair value of the indefinite-lived intangible asset at one of its Affiliates, a manager of growth-oriented U.S. equity mutual funds, had declined below its carrying value and, accordingly, reduced the carrying value by \$102.2 million. The fair value of this asset (\$38.2 million) was calculated using a discounted cash flow analysis, a Level 3 fair value measurement. The significant assumptions used in the valuation were assets under management (declining approximately 10% annually) and a discount rate of 15%. While the Company generally considers investment advisory contracts between its Affiliates and their sponsored registered investment companies to have an indefinite life, it was determined that the useful life of this asset was no longer indefinite. Accordingly, in the second quarter of 2012 the Company reclassified the remaining acquired client relationships to definite-lived. No impairment was recognized in the third quarter of 2012.

For the Company's Affiliates that are consolidated, definite-lived acquired client relationships are amortized over their expected useful lives. As of September 30, 2012, these relationships were being amortized over a weighted average life of approximately eleven years. The Company recognized amortization expense for these relationships of \$22.1 million and \$66.3 million, respectively for the three and nine months ended September 30, 2011 as compared to \$24.0 million and \$66.9 million, respectively for the three and nine months ended September 30, 2012. The Company estimates that its consolidated annual amortization expense will be approximately \$95.0 million for the next five years, assuming no additional investments in new or existing Affiliates.

18. Equity Method Investments in Affiliates

For the Affiliates in which the Company holds a significant but non-controlling interest, the equity method of accounting is applied. The definite-lived acquired client relationships attributable to the Company's equity method investments are amortized over their expected useful lives. As of September 30, 2012, these relationships were being amortized over a weighted average life of approximately eight years. The Company recognized amortization expense for these relationships of \$8.2 million and \$24.8 million, respectively for the three and nine months ended September 30, 2011 as compared to \$10.2 million and \$26.5 million, respectively for the three and nine months ended September 30, 2012. Assuming no additional investments in new or existing Affiliates, the Company

AFFILIATED MANAGERS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

estimates the annual amortization expense attributable to its current equity-method Affiliates for the next five years as follows:

| Year Ending December 31, | Estimated Amortization Expense | |
|--------------------------|-----------------------------------|------|
| 2012 | \$ | 37.8 |
| 2013 | | 44.9 |
| 2014 | | 23.5 |
| 2015 | | 14.9 |
| 2016 | | 12.4 |

During the quarter ended September 30, 2012, the Company announced and closed an additional investment in BlueMountain Capital Management LLC ("BlueMountain"), a leading global credit alternatives manager. Founded in 2003, BlueMountain manages more than \$8.0 billion in assets across a diverse set of strategies in the credit markets.

The Company continues to hold a minority interest and accounts for the investment under the equity method of accounting. The Company's purchase price allocation is provisional and allocated \$122.8 million to acquired client relationships. The Company's purchase price allocation was measured using a financial model that includes assumptions of expected market performance and net client cash flows. This provisional amount may be revised upon completion of the final valuation. The consideration paid (less net tangible assets acquired) will be deductible for U.S. tax purposes over a 15-year life.

19. Affiliate Equity

The Company periodically issues Affiliate equity interests to and repurchases Affiliate equity interests from its Affiliate partners. These transactions generally occur at fair value. However, if the equity is issued for consideration below the fair value of the equity or repurchased for consideration above the fair value of the equity, then such difference is recorded as compensation expense over the requisite service period. The Company recognized compensation expense related to Affiliate equity of \$6.4 million and \$17.6 million, respectively (\$1.9 million and \$9.1 million attributable to the controlling interest) for the three and nine months ended September 30, 2011 as compared to \$6.5 million and \$21.6 million, respectively (\$2.3 million and \$9.3 million attributable to the controlling interest) for the three and nine months ended September 30, 2012.

Many of the Company's operating agreements provide the Company a conditional right to call and Affiliate partners the conditional right to put their retained equity interests at certain intervals. The purchase price of these conditional purchases are generally calculated based upon a multiple of the Affiliate's cash flow distributions, which is intended to represent fair value. Affiliate management partners are also permitted to sell their equity interests to other individuals or entities in certain cases, subject to the Company's approval or other restrictions. The Company, at its option, may pay for Affiliate equity purchases in cash, shares of its common stock or other forms of consideration and can consent to the transfer of these interests to other individuals or entities.

The current redemption value of these interests has been presented as Redeemable non-controlling interests on the Company's Consolidated Balance Sheets. Changes in the current redemption value are

AFFILIATED MANAGERS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

recorded to Additional paid-in capital. The following table presents the changes in Redeemable non-controlling interests during the period:

| | |
|---|--------------|
| Balance as of January 1, 2012 | \$ 451.8 |
| Issuance of Redeemable non-controlling interest | 9.3 |
| Repurchase of Redeemable non-controlling interest | (15.8) |
| Changes in redemption value | 67.8 |
| Balance as of September 30, 2012 | \$ 513.1 |

During the three and nine months ended September 30, 2011 and 2012, the Company acquired interests from and transferred interests to Affiliate management partners. 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 September 30, | | For the Nine Months Ended September 30, | |
|--|---|-------------|--|-------------|
| | 2011 | 2012 | 2011 | 2012 |
| Net income (controlling interest) | \$ 40.1 | \$ 54.9 | \$ 124.6 | \$ 98.9 |
| Increase (decrease) in controlling interest paid-in capital from purchases and sales of Affiliate equity | (4.9) | 1.1 | (4.5) | (7.5) |
| Change from Net income (controlling interest) and net transfers with non-controlling interests | \$ 35.2 | \$ 56.0 | \$ 120.1 | \$ 91.4 |

20. Comprehensive Income

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

| | For the Three Months Ended September 30, 2011 | | | For the Nine Months Ended September 30, 2011 | | |
|---|--|-------------|---------------|---|-------------|---------------|
| | Tax | | | Tax | | |
| | Pre-Tax | Expense | Net of Tax | Pre-Tax | Expense | Net of Tax |
| Foreign currency translation adjustment | \$ (34.6) | \$ | \$ (34.6) | \$ (18.2) | \$ | \$ (18.2) |
| Change in net realized and unrealized loss on derivative securities | (10.2) | 3.9 | (6.3) | (11.5) | 4.4 | (7.1) |
| Change in net unrealized loss on investment securities | (64.8) | 24.3 | (40.5) | (74.3) | 28.1 | (46.2) |
| Other comprehensive income (loss) | \$ (109.6) | \$ 28.2 | \$ (81.4) | \$ (104.0) | \$ 32.5 | \$ (71.5) |

AFFILIATED MANAGERS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

| | For the Three Months Ended September 30, 2012 | | | For the Nine Months Ended September 30, 2012 | | |
|---|--|----------|------------|---|---------|------------|
| | Tax | | | Tax | | |
| | Pre-Tax | Expense | Net of Tax | Pre-Tax | Expense | Net of Tax |
| Foreign currency translation adjustment | \$ 15.2 | \$ | \$ 15.2 | \$ 19.7 | \$ | \$ 19.7 |
| Change in net realized and unrealized loss on derivative securities | (0.5) | 0.2 | (0.3) | (1.4) | 0.5 | (0.9) |
| Change in net unrealized loss on investment securities | 1.9 | (0.7) | 1.2 | (1.8) | 0.7 | (1.1) |
| Other comprehensive income (loss) | \$ 16.6 | \$ (0.5) | \$ 16.1 | \$ 16.5 | \$ 1.2 | \$ 17.7 |

The components of accumulated other comprehensive income, net of taxes, are as follows:

| | December 31, 2011 | Other Comprehensive Income | September 30, 2012 |
|--|----------------------|----------------------------------|-----------------------|
| Foreign currency translation adjustments | \$ 57.7 | \$ 19.7 | \$ 77.4 |
| Realized and unrealized loss on derivative securities | (2.2) | (0.9) | (3.1) |
| Unrealized loss on investment securities | (5.5) | (1.1) | (6.6) |
| Accumulated other comprehensive income | 50.0 | 17.7 | 67.7 |
| Accumulated other comprehensive income (non-controlling interests) | | (1.7) | (1.7) |
| Accumulated other comprehensive income (controlling interest) | \$ 50.0 | \$ 16.0 | \$ 66.0 |

21. Recent Accounting Developments

In May 2011, the Financial Accounting Standards Board issued an update to the fair value measurements and disclosures guidance. The new guidance clarifies existing fair value measurement principles and expands certain disclosure requirements, particularly for measurements categorized as Level 3. The amendment is effective for interim and fiscal periods beginning after December 15, 2011. The Company adopted this guidance in the first quarter of 2012. Adoption of this new guidance did not have a material impact on the Company's Consolidated Financial Statements.

In July 2012, the Financial Accounting Standards Board issued new guidance that provides the option of performing a qualitative assessment before proceeding with a quantitative impairment test for indefinite-lived intangible assets. Following an assessment of qualitative factors, if an entity determines that it is more likely than not that the fair value of the indefinite-lived asset is greater than its carrying amount, then a quantitative assessment is unnecessary. This guidance is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012, with early adoption permitted. Adoption of this new guidance is not expected to have a significant impact on the Company's Consolidated Financial Statements.

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

Forward-Looking Statements

When used in this Quarterly Report on Form 10-Q, in our other filings with the United States Securities and Exchange Commission, in our press releases and in oral statements made with the approval of an executive officer, the words or phrases "will likely result," "are expected to," "will continue," "is anticipated," "may," "intends," "believes," "estimate," "project" or similar expressions are intended to identify "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to certain risks and uncertainties, including, among others, the following:

our performance is directly affected by changing conditions in global financial markets generally and in the equity markets particularly, and a decline or a lack of sustained growth in these markets may result in decreased advisory fees or performance fees and a corresponding decline (or lack of growth) in our operating results and in the cash flow distributable to us from our Affiliates;

we cannot be certain that we will be successful in finding or investing in additional investment management firms on favorable terms, that we will be able to consummate announced investments in new investment management firms, or that existing and new Affiliates will have favorable operating results;

we may need to raise capital by making long-term or short-term borrowings or by selling shares of our common stock or other securities in order to finance investments in additional investment management firms or additional investments in our existing Affiliates, and we cannot be sure that such capital will be available to us on acceptable terms, if at all; and

those certain other factors discussed under the caption "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2011, and in any other filings we make with the Securities and Exchange Commission from time to time.

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. 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 wish to caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made.

Management's Discussion and Analysis should be read in conjunction with the Consolidated Financial Statements of AMG and its subsidiaries (collectively, the "Company" or "AMG") 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 (our "Affiliates"). Our innovative partnership approach allows each Affiliate's management team to own significant equity in their firm while maintaining operational autonomy. Our strategy is to generate growth through the internal growth of existing Affiliates, as well as through investments in new Affiliates. In addition, we provide centralized assistance to our Affiliates in strategic matters, marketing, distribution, product development and operations.

As of September 30, 2012, we manage \$416.1 billion in assets through our Affiliates across a broad range of asset classes and investment styles in three principal distribution channels: Mutual Fund, Institutional and High Net Worth. The following summarizes our operations in our three principal distribution channels.

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In the Mutual Fund distribution channel, our Affiliates provide advisory or sub-advisory services to mutual funds. 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 Institutional distribution channel, we offer a broad range of investment styles, including small, small/mid, mid and large capitalization value, growth equity and emerging markets. In addition, our Affiliates offer quantitative, alternative and fixed income products. Through this distribution channel, our Affiliates manage assets for public and private client entities, including pension plans, foundations, endowments and sovereign wealth funds, with disciplined and focused investment styles that address the specialized needs of institutional clients.

The High Net Worth distribution channel is comprised broadly of two principal client groups. The first group consists principally of direct relationships with high net worth individuals and families and charitable foundations. For these clients, our Affiliates provide investment management or customized investment counseling and fiduciary services. The second group consists of individual managed account client relationships established through intermediaries, which are generally brokerage firms or other sponsors. Our Affiliates provide investment management services through managed account and wrap programs. In 2011, we formed AMG Wealth Partners to extend and tailor our innovative partnership approach to equity investments in leading boutique wealth management firms.

New Investments

On July 31, 2012, we completed an additional investment in BlueMountain Capital Management LLC ("BlueMountain"), a leading global credit alternatives manager. Founded in 2003, BlueMountain manages more than \$8.0 billion in assets across a diverse set of strategies in the credit markets.

Our Structure and Relationship with Affiliates

In making investments in boutique investment management firms, we seek to partner with the highest quality firms in the industry, with outstanding management teams, strong long-term performance records and a demonstrated commitment to continued growth and success. Fundamental to our investment approach is the belief that Affiliate management equity ownership (along with AMG's ownership) aligns our interests and provides Affiliate managers with a powerful incentive to continue to grow their business. Our investment structure provides a degree of liquidity and diversification to principal owners of boutique investment management firms, while at the same time expanding equity ownership opportunities among the firm's management and allowing management to continue to participate in the firm's future growth. Our partnership approach also ensures that Affiliates maintain operational autonomy in managing their business, thereby preserving their firm's entrepreneurial culture and independence.

Although the specific structure of each investment is highly tailored to meet the needs of a particular Affiliate, in all cases, we establish a meaningful equity interest in the firm, with the remaining equity interests retained by the management of the Affiliate. Each Affiliate is organized as a separate firm, and its operating or shareholder agreement is structured to provide appropriate incentives for Affiliate management owners and to address the Affiliate's particular characteristics while also enabling us to protect our interests, including through arrangements such as long-term employment agreements with key members of the firm's management team.

In most cases, we own a majority of the equity interests of a firm and structure a revenue sharing arrangement, in which a percentage of revenue is allocated for use by management of that Affiliate in paying operating expenses of the Affiliate, including salaries and bonuses. We call this the "Operating

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Allocation." The portion of each Affiliate's revenue that is allocated to the owners of that Affiliate (including us) is called the "Owners' Allocation." Each Affiliate allocates its Owners' Allocation to its managers and to us generally in proportion to their and our respective ownership interests in that Affiliate.

One of the purposes of our revenue sharing arrangements is to provide ongoing incentives for Affiliate managers by allowing them to participate in the growth of their firm's revenue, which may increase their compensation from both the Operating Allocation and the Owners' Allocation. These arrangements also provide incentives to control operating expenses, thereby increasing the portion of the Operating Allocation that is available for growth initiatives and compensation.

An Affiliate's Operating Allocation is structured to cover its operating expenses. However, should actual operating expenses exceed the Operating Allocation, our contractual share of cash under the Owners' Allocation generally has priority over the allocations and distributions to the Affiliate's managers. As a result, the excess expenses first reduce the portion of the Owners' Allocation allocated to the Affiliate's managers until that portion is eliminated, before reducing the portion allocated to us. Any such reduction in our portion of the Owners' Allocation is required to be paid back to us out of the portion of future Owners' Allocation allocated to the Affiliate's managers.

Our minority investments are also structured to align our interests with those of the Affiliate's management through shared equity ownership, as well as to preserve the Affiliate's entrepreneurial culture and independence by maintaining the Affiliate's operational autonomy. In cases where we hold a minority investment, the revenue sharing arrangement generally allocates a percentage of the Affiliate's revenue to us. The remaining revenue is used to pay operating expenses and profit distributions to the other owners. Generally where we own a minority investment, we are required to use the equity method of accounting. Consistent with this method, we have not consolidated the operating results of these firms (including their revenue) in our Consolidated Statements of Income. Our share of these firms' profits (net of intangible amortization) is reported in Income from equity method investments, and is therefore reflected in our Net income and EBITDA. As a consequence, increases or decreases in these firms' assets under management (\$117.6 billion as of September 30, 2012 and included in our reported assets under management) will not affect our reported revenue.

Certain of our Affiliates operate under profit-based arrangements through which we own a majority of the equity in the firm and receive a share of profits as cash flow, rather than a percentage of revenue through a typical revenue sharing agreement. As a result, we participate fully in any increase or decrease in the revenue or expenses of such firms. In these cases, we participate in a budgeting process and generally provide incentives to management through compensation arrangements based on the performance of the Affiliate.

We are focused on establishing and maintaining long-term partnerships with our Affiliates. Our shared equity ownership gives both us and our Affiliates meaningful incentives to manage their businesses for strong future growth. From time to time, we may consider changes to the structure of our relationship with an Affiliate in order to better support the firm's growth strategy.

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Financial Results

The table below summarizes our financial highlights:

| <i>(in millions, except as noted and per share data)</i> | For the Three Months Ended September 30, | | | For the Nine Months Ended September 30, | | |
|--|---|-------------|-----------------|--|-------------|-----------------|
| | 2011 | 2012 | % Change | 2011 | 2012 | % Change |
| Assets under Management (in billions) | \$ 305.9 | \$ 416.1 | 36% | \$ 305.9 | \$ 416.1 | 36 % |
| Revenue | 413.8 | 467.3 | 13% | 1,302.4 | 1,314.5 | 1 % |
| Net income (controlling interest) ⁽¹⁾ | 40.1 | 54.9 | 37% | 124.6 | 98.9 | (21)% |
| Earnings per share diluted ⁽¹⁾ | 0.76 | 1.04 | 37% | 2.34 | 1.87 | (20)% |
| Economic net income ⁽²⁾ | 82.1 | 101.2 | 23% | 258.5 | 272.3 | 5 % |
| Economic earnings per share ⁽²⁾ | 1.55 | 1.91 | 23% | 4.86 | 5.15 | 6 % |

- (1) During the first half of 2012, we reduced the carrying value of an indefinite-lived intangible asset at one of our Affiliates by \$102.2 million and we also reduced our current estimate of contingent payment obligations and recognized a gain of \$57.3 million (\$39.6 million attributable to the controlling interest). Excluding these valuation adjustments, Net income (controlling interest) and Earnings per share diluted would have been \$137.8 million and \$2.61 for the nine months ended September 30, 2012. Management believes the disclosure of Net income (controlling interest) and Earnings per share diluted excluding these valuation adjustments, both non-GAAP measures, provides for a better comparison between current and prior periods.
- (2) Economic net income and Economic earnings per share, including a reconciliation of Economic net income to Net income, are discussed in "Supplemental Performance Measures" on page 43.

During the twelve months ended September 30, 2012, the MSCI EAFE and the S&P 500 realized increases of 14.3% and 30.2%, respectively. Our total assets under management grew to \$416.1 billion at September 30, 2012, an increase of approximately 36% over September 30, 2011. The growth in our assets under management was primarily the result of investment performance (\$54.4 billion), organic growth of our Affiliates from net client cash flows (\$29.1 billion) and our new investments in Veritable and Yacktman (\$28.0 billion).

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Diversification of Assets under Management

The following table provides information regarding the composition of our assets under management:

| <i>(in billions)</i> | December 31, 2011 | | September 30, 2012 | |
|-------------------------------------|-------------------------|---------------------|-------------------------|---------------------|
| | Assets under Management | Percentage of Total | Assets under Management | Percentage of Total |
| Asset Class | | | | |
| Equity ⁽¹⁾ | \$ 207.9 | 63% | \$ 266.5 | 64% |
| Alternative ⁽²⁾ | 80.3 | 25% | 99.4 | 24% |
| Fixed Income ⁽³⁾⁽⁴⁾ | 39.3 | 12% | 50.2 | 12% |
| Total | \$ 327.5 | 100% | \$ 416.1 | 100% |
| Geography⁽⁵⁾ | | | | |
| Domestic | \$ 109.4 | 33% | \$ 152.9 | 37% |
| Global/International ⁽⁴⁾ | 178.4 | 55% | 215.2 | 52% |
| Emerging Markets | 39.7 | 12% | 48.0 | 11% |
| Total | \$ 327.5 | 100% | \$ 416.1 | 100% |

-
- (1) The Equity asset class includes equity, balanced and asset allocation products.
- (2) The Alternative asset class includes private equity, multi-strategy, market neutral equity and hedge products.
- (3) Our Affiliates currently sponsor money market funds with fund assets representing less than 1% of our assets under management.
- (4) Investments in sovereign and non-sovereign debt of European countries represent less than 1% of our assets under management.
- (5) The Geography of a particular investment product describes the general location of its investment holdings.

Our assets under management increased during the nine months ended September 30, 2012 principally as a result of our new investments (\$22.9 billion in the Equity asset class and \$5.1 billion in Fixed Income) and organic growth from net client cash flows in the Alternative asset class (\$14.8 billion) and the Equity asset class (\$9.2 billion). Our new investments also increased the Domestic asset class (\$25.8 billion) and Global/International (\$2.2 billion) while organic growth from net client cash flows increased Global/International (\$19.2 billion).

Assets under Management by Operating Segment

The following table presents our Affiliates' reported assets under management by operating segment (which are also referred to as distribution channels in this Quarterly Report on Form 10-Q).

Statement of Changes-Quarter to Date

| <i>(in billions)</i> | Mutual Fund | Institutional | High Net Worth | Total |
|------------------------|--------------------|----------------------|-----------------------|--------------|
| June 30, 2012 | \$ 108.5 | \$ 223.8 | \$ 52.3 | \$ 384.6 |
| Client cash inflows | 10.2 | 11.4 | 3.1 | 24.7 |
| Client cash outflows | (6.8) | (4.4) | (2.7) | (13.9) |
| Net client cash flows | 3.4 | 7.0 | 0.4 | 10.8 |
| Investment performance | 6.0 | 13.3 | 2.2 | 21.5 |
| Other ⁽¹⁾ | (0.1) | (0.3) | (0.4) | (0.8) |
| September 30, 2012 | \$ 117.8 | \$ 243.8 | \$ 54.5 | \$ 416.1 |

Statement of Changes-Year to Date

| <i>(in billions)</i> | Mutual Fund | Institutional | High Net Worth | Total |
|--------------------------------|--------------------|----------------------|-----------------------|--------------|
| December 31, 2011 | \$ 85.2 | \$ 205.7 | \$ 36.6 | \$ 327.5 |
| New Investments ⁽²⁾ | 14.8 | 0.0 | 13.2 | 28.0 |
| Client cash inflows | 25.5 | 33.3 | 8.2 | 67.0 |
| Client cash outflows | (17.6) | (17.9) | (6.4) | (41.9) |
| Net client cash flows | 7.9 | 15.4 | 1.8 | 25.1 |
| Investment performance | 10.1 | 23.5 | 3.3 | 36.9 |
| Other ⁽¹⁾ | (0.2) | (0.8) | (0.4) | (1.4) |
| September 30, 2012 | \$ 117.8 | \$ 243.8 | \$ 54.5 | \$ 416.1 |

(1) Includes assets under management attributable to Affiliate product transitions, new investment client transitions and transfers of our interests in certain Affiliated investment management firms, the financial effects of which are not material to our ongoing results.

(2) In the second quarter of 2012, we completed our investments in Veritable and Yacktman.

As shown in the assets under management table above, client cash inflows totaled \$67.0 billion while client cash outflows totaled \$41.9 billion for the nine months ended September 30, 2012. The net flows for the nine months ended September 30, 2012 occurred across a broad range of product offerings in each of our distribution channels, with no individual cash inflow or outflow having a material impact on our revenue or expenses.

The operating segment analysis presented in the following table is based on average assets under management. For the Mutual Fund distribution channel, average assets under management represent an average of the daily net assets under management. For the Institutional and High Net Worth distribution channels, average assets under management reflect the billing patterns of particular client accounts. For example, assets under management for an account that bills in advance is presented in the table on the basis of beginning of period assets under management while an account that bills in arrears is reflected on the basis of end of period assets under management. We believe that this

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analysis more closely correlates to the billing cycle of each distribution channel and, as such, provides a more meaningful relationship to revenue.

| <i>(in millions, except as noted)</i> | For the Three Months Ended September 30, | | | For the Nine Months Ended September 30, | | |
|---|--|----------|----------|---|------------|----------|
| | 2011 | 2012 | % Change | 2011 | 2012 | % Change |
| Average Assets under Management | | | | | | |
| (in billions)⁽¹⁾ | | | | | | |
| Including equity method Affiliates: | | | | | | |
| Mutual Fund | \$ 83.7 | \$ 112.0 | 34% | \$ 87.6 | \$ 98.4 | 12 % |
| Institutional | 200.4 | 234.2 | 17% | 208.7 | 225.4 | 8 % |
| High Net Worth | 35.4 | 53.4 | 51% | 36.1 | 44.2 | 22 % |
| Total | \$ 319.5 | \$ 399.6 | 25% | \$ 332.4 | \$ 368.0 | 11 % |
| Excluding equity method Affiliates: | | | | | | |
| Mutual Fund | \$ 74.3 | \$ 92.3 | 24% | \$ 78.9 | \$ 81.2 | 3 % |
| Institutional | 139.6 | 154.0 | 10% | 147.0 | 152.2 | 4 % |
| High Net Worth | 27.5 | 43.9 | 60% | 27.8 | 34.4 | 24 % |
| Total | \$ 241.4 | \$ 290.2 | 20% | \$ 253.7 | \$ 267.8 | 6 % |
| Revenue | | | | | | |
| Mutual Fund | \$ 179.0 | \$ 208.3 | 16% | \$ 555.7 | \$ 557.4 | 0 % |
| Institutional | 199.6 | 210.7 | 6% | 640.6 | 636.8 | (1)% |
| High Net Worth | 35.2 | 48.3 | 37% | 106.1 | 120.3 | 13 % |
| Total | \$ 413.8 | \$ 467.3 | 13% | \$ 1,302.4 | \$ 1,314.5 | 1 % |
| Net income (loss) (controlling interest)⁽²⁾ | | | | | | |
| Mutual Fund ⁽³⁾ | \$ 18.4 | \$ 24.7 | 34% | \$ 53.8 | \$ 8.3 | (85)% |
| Institutional | 17.7 | 24.9 | 41% | 66.3 | 77.0 | 16 % |
| High Net Worth ⁽⁴⁾ | 4.0 | 5.3 | 33% | 4.5 | 13.6 | 202 % |
| Total | \$ 40.1 | \$ 54.9 | 37% | \$ 124.6 | \$ 98.9 | (21)% |
| EBITDA⁽⁵⁾ | | | | | | |
| Mutual Fund | \$ 38.1 | \$ 46.4 | 22% | \$ 121.0 | \$ 119.9 | (1)% |
| Institutional | 64.1 | 73.3 | 14% | 213.1 | 207.0 | (3)% |
| High Net Worth ⁽⁴⁾ | 10.7 | 13.8 | 29% | 20.9 | 34.3 | 64 % |
| Total | \$ 112.9 | \$ 133.5 | 18% | \$ 355.0 | \$ 361.2 | 2 % |

- (1) As described above, our average assets under management considers balances used to bill revenue during the reporting period. Assets under management attributable to investments in new Affiliates are included on a weighted average basis for the period from the closing date of the respective investment.
- (2) In 2012, we changed our estimate of payments to be made under certain of our contingent payment arrangements. During the first half of 2012, we recognized a gain totaling \$57.3 million (\$39.6 million attributable to the controlling interest) as a result of this change. The controlling interest portion of the gain was allocated \$19.1 million, \$20.2 million and \$0.3 million to our Mutual Fund, Institutional and High Net Worth channels, respectively.
- (3)

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During the first half of 2012, we reduced the carrying value of an indefinite-lived intangible asset at one of our Affiliates and, accordingly, recorded pre-tax expenses of \$102.2 million.

- (4) During the three months ended June 30, 2011, we determined that the value of a cost method investment had been reduced to zero, and recorded a \$12.8 million write-down which was allocated to our High Net Worth distribution channel.
- (5) EBITDA, including a reconciliation to cash flow from operations, is discussed in "Supplemental Liquidity Measure" on page 46.

Results of Operations

Revenue

Our revenue is generally determined by the level of our assets under management and the allocation of our assets across our three operating segments, which realize different fee rates, and the recognition of any performance fees. Performance fees are generally measured on absolute or relative investment performance against a benchmark. As a result, the level of performance fees earned can vary significantly from period to period and these fees may not necessarily be correlated to changes in total assets under management.

Our total revenue increased \$53.5 million (or 13%) in the three months ended September 30, 2012, as compared to the three months ended September 30, 2011, primarily from a 20% increase in average assets under management from our consolidated Affiliates offset by a decline in our average fee rates (6%). The increase in average assets under management resulted principally from investment performance and our new Affiliate investments. The decline in average fee rates resulted from changes in the composition of our assets under management including decreases in assets under management in certain products that realize comparatively higher fee rates and increases in assets under management in certain products that realize comparatively lower fee rates including our new Affiliate investments in 2012. Consolidated performance fee revenue remained relatively flat for the three months ended September 30, 2012 as compared to the three months ended September 30, 2011.

Our total revenue increased \$12.1 million (or 1%) in the nine months ended September 30, 2012, as compared to the nine months ended September 30, 2011 primarily from a 6% increase in average assets under management from our consolidated Affiliates offset by a decline in our average fee rates (4%). The increase in average assets under management resulted principally from investment performance, our new Affiliate investments and net client cash flows. The decline in average fee rates resulted from changes in the composition of our assets under management including decreases in assets under management in certain products that realize comparatively higher fee rates and increases in assets under management in certain products that realize comparatively lower fee rates including our new Affiliate investments in 2012.

Changes in the composition of our assets under management between operating segments did not have a significant impact on our results.

The following discusses the changes in our revenue by operating segment.

Mutual Fund Distribution Channel

Our revenue in the Mutual Fund distribution channel increased \$29.3 million (or 16%) in the three months ended September 30, 2012 as compared to the three months ended September 30, 2011, primarily from a 24% increase in average assets under management from our consolidated Affiliates offset by a decline in our average fee rates (7%). The increase in average assets under management resulted principally from investment performance and our new Affiliate investments. The decline in average fee rates resulted from changes in our business mix as described above.

Our revenue increased \$1.7 million in the nine months ended September 30, 2012 as compared to the nine months ended September 30, 2011, primarily from a 3% increase in average assets under management from our consolidated Affiliates offset by a decline in our average fee rates (3%). The increase in average assets under management resulted principally from investment performance and our new Affiliate investments. The decline in average fee rates resulted from changes in our business mix as described above.

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Institutional Distribution Channel

Our revenue in the Institutional distribution channel increased \$11.1 million (or 6%) in the three months ended September 30, 2012 as compared to the three months ended September 30, 2011, primarily from a 10% increase in average assets under management from our consolidated Affiliates offset by a decline in our average fee rates (5%). The increase in average assets under management resulted principally from investment performance and net client cash flows. The decline in average fee rates resulted from changes in our business mix as described above.

Our revenue in the Institutional distribution channel decreased \$3.8 million (or 1%) in the nine months ended September 30, 2012 as compared to the nine months ended September 30, 2011, primarily from a decline in our average fee rates (4%) and a decline in performance fees (1%) offset by an increase in average assets under management from our consolidated Affiliates of 4%. The decline in average fee rates resulted from changes in our business mix as described above. Consolidated performance fee revenue decreased \$4.4 million to \$20.5 million for the nine months ended September 30, 2012 as compared to the nine months ended September 30, 2011. The increase in average assets under management resulted principally from investment performance and net client cash flows.

High Net Worth Distribution Channel

Our revenue in the High Net Worth distribution channel increased \$13.1 million (or 37%) in the three months ended September 30, 2012 as compared to the three months ended September 30, 2011, primarily from a 60% increase in average assets under management from our consolidated Affiliates offset by a decline in our average fee rates (9%). The increase in average assets under management resulted principally from our new Affiliate investments and investment performance. The decline in average fee rates resulted from changes in our business mix as described above.

Our revenue in the High Net Worth distribution channel increased \$14.2 million (or 13%) in the nine months ended September 30, 2012 as compared to the nine months ended September 30, 2011, primarily from a 24% increase in average assets under management from our consolidated Affiliates offset by a decline in our average fee rates (6%). The increase in average assets under management resulted principally from our new Affiliate investments and investment performance. The decline in average fee rates resulted from changes in our business mix as described above.

Operating Expenses

The following table summarizes our consolidated operating expenses:

| <i>(in millions)</i> | For the Three Months Ended September 30, | | | For the Nine Months Ended September 30, | | |
|---|---|-----------------|-----------------|--|-------------------|-----------------|
| | 2011 | 2012 | % Change | 2011 | 2012 | % Change |
| Compensation and related expenses | \$ 168.9 | \$ 196.8 | 17 % | \$ 544.9 | \$ 565.9 | 4 % |
| Selling, general and administrative | 83.5 | 93.9 | 12 % | 261.6 | 267.7 | 2 % |
| Intangible amortization and impairments | 22.1 | 24.0 | 9 % | 66.3 | 169.1 | 155 % |
| Depreciation and other amortization | 4.0 | 3.5 | (13)% | 11.6 | 10.6 | (9)% |
| Other operating expenses | 9.3 | 9.4 | 1 % | 27.1 | 27.7 | 2 % |
| Total operating expenses | \$ 287.8 | \$ 327.6 | 14 % | \$ 911.5 | \$ 1,041.0 | 14 % |

A substantial portion of our operating expenses is incurred by our Affiliates with revenue sharing arrangements. For Affiliates with revenue sharing arrangements, an Affiliate's Operating Allocation percentage generally determines its operating expenses. Accordingly, our compensation expense is generally impacted by increases or decreases in each Affiliate's revenue and the corresponding

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increases or decreases in their respective Operating Allocations. During the three and nine months ended September 30, 2012, approximately \$102.1 million and \$267.1 million, (or 52% and 51%), respectively, of our consolidated compensation expense, was attributable to our Affiliate partners from their Operating Allocations. The percentage of revenue allocated to operating expenses varies from one Affiliate to another and may vary within an Affiliate depending on the source or amount of revenue. As a result, changes in our aggregate revenue may not impact our consolidated operating expenses to the same degree.

Compensation and related expenses increased \$27.9 million (or 17%) and \$21.0 million (or 4%) in the three and nine months ended September 30, 2012, as compared to the three and nine months ended September 30, 2011, respectively. These increases were primarily attributable to increases in aggregated Affiliate expenses of \$13.2 million and \$13.6 million from new Affiliate investments in the three and nine months ended September 30, 2012, respectively. In the three months ended September 30, 2012, as compared to the three months ended September 30, 2011, the increase was also a result of the relationship between revenue and operating expenses at Affiliates which experienced increases in revenue, and accordingly, reported higher compensation expenses. In the nine months ended September 30, 2012 the increase was also a result of an increase in share-based payment arrangements and costs associated with our global distribution initiatives.

Selling, general and administrative expenses increased \$10.4 million (or 12%) and \$6.1 million (or 2%) in the three and nine months ended September 30, 2012, as compared to the three and nine months ended September 30, 2011, respectively. These increases resulted principally from increases in aggregate Affiliate expenses from new Affiliate investments in both the three and nine months ended September 30, 2012, as compared to the three and nine months ended September 30, 2011, respectively.

Intangible amortization and impairments increased \$1.9 million (or 9%) and \$102.8 million (or 155%) in the three and nine months ended September 30, 2012, as compared to the three and nine months ended September 30, 2011, respectively. In the three months ended September 30, 2012, as compared to the three months ended September 30, 2011, this increase related to our new Affiliate investments in 2012. In the nine months ended September 30, 2012, as compared to the nine months ended September 30, 2011, this increase was primarily the result of expenses associated with the reduction in carrying value of an indefinite-lived intangible asset at one of our Affiliates of \$102.2 million in the first half of 2012.

Depreciation and other amortization decreased \$0.5 million (or 13%) and \$1.0 million (or 9%) in the three and nine months ended September 30, 2012, as compared to the three and nine months ended September 30, 2011, respectively.

Other operating expenses increased \$0.1 million (or 1%) and \$0.6 million (or 2%) in the three and nine months ended September 30, 2012, as compared to the three and nine months ended September 30, 2011, respectively.

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Other Income Statement Data

The following table summarizes other income statement data:

| <i>(in millions)</i> | For the Three Months Ended September 30, | | | For the Nine Months Ended September 30, | | |
|--|--|---------|---------------------|---|---------|---------------------|
| | 2011 | 2012 | % Change | 2011 | 2012 | % Change |
| Income from equity method investments | \$ 9.8 | \$ 19.4 | 98 % | \$ 40.1 | \$ 47.3 | 18 % |
| Investment and other income (loss) | (9.5) | 6.9 | n.m. ⁽¹⁾ | (6.8) | 20.3 | n.m. ⁽¹⁾ |
| Interest expense | 18.1 | 21.8 | 20 % | 55.6 | 58.8 | 6 % |
| Imputed interest expense and contingent payment arrangements | 8.3 | 6.7 | (19)% | 24.9 | (35.7) | n.m. ⁽¹⁾ |
| Income tax expense | 19.8 | 19.4 | (2)% | 73.2 | 46.0 | (37)% |

(1) Percentage change is not meaningful.

Income from equity method investments consists of our share of income from Affiliates that are accounted for under the equity method of accounting, net of any related intangible amortization. Income from equity method investments increased \$9.6 million (or 98%) and \$7.2 million (or 18%) in the three and nine months ended September 30, 2012 as compared to the three and nine months ended September 30, 2011, respectively. These increases were a result of increases in revenue resulting from higher assets under management as well as our additional investment in BlueMountain during the third quarter of 2012.

Investment and other income (loss) increased \$16.4 million and \$27.1 million in the three and nine months ended September 30, 2012, as compared to the three and nine months ended September 30, 2011, respectively. These increases were principally as a result of increases in Affiliate investment earnings. The increase in the nine months ended September 30, 2012, as compared to the nine months ended September 30, 2011, was also a result of a \$12.8 million write-off of a cost method investment in the second quarter of 2011, which did not recur in 2012.

Interest expense increased \$3.7 million (or 20%) and \$3.2 million (or 6%) in the three and nine months ended September 30, 2012 as compared to the three and nine months ended September 30, 2011, respectively. These increases were principally as a result of the issuance of the 6.375% Senior Notes due in 2042 (the "2042 Senior Notes") in the third quarter of 2012 (\$1.8 million) and increased borrowings under our credit facility.

Imputed interest expense and contingent payment arrangements consists of interest accretion on our senior convertible securities and our junior convertible trust preferred securities, as well as the accretion and revaluation of our contingent payment arrangements. Imputed interest expense and contingent payment arrangements decreased \$1.6 million (or 19%) and \$60.6 million in the three and nine months ended September 30, 2012 as compared to the three and nine months ended September 30, 2011, respectively. In the nine months ended September 30, 2012, as compared to the nine months ended September 30, 2011, the decrease primarily relates to gains on the revaluation of contingent payment arrangements of \$57.3 million which occurred during the first half of 2012.

Income taxes decreased \$0.4 million (or 2%) in the three months ended September 30, 2012, as compared to the three months ended September 30, 2011, as a result of recognizing the benefit of the reduction of corporate tax rates in the United Kingdom and a \$3.1 million reduction in our deferred tax valuation allowance in the third quarter of 2012, offset by the increase in Income before taxes for controlling interests. Income taxes decreased \$27.2 million (or 37%) in the nine months ended September 30, 2012, as compared to the nine months ended September 30, 2011 as the result of a decrease in Income before taxes for controlling interests and an \$8.3 million reduction in our deferred tax valuation allowance in the nine months ended September 30, 2012.

Net Income

The following table summarizes Net income:

| <i>(in millions)</i> | For the Three Months Ended September 30, | | | For the Nine Months Ended September 30, | | |
|--|--|----------|----------|---|----------|----------|
| | 2011 | 2012 | % Change | 2011 | 2012 | % Change |
| Net income | \$ 80.1 | \$ 118.1 | 47% | \$ 270.5 | \$ 272.0 | 1 % |
| Net income (non-controlling interests) | 40.0 | 63.2 | 58% | 145.9 | 173.1 | 19 % |
| Net income (controlling interest) | 40.1 | 54.9 | 37% | 124.6 | 98.9 | (21)% |

Net income (non-controlling interests) increased \$23.2 million (or 58%) and \$27.2 million (or 19%) in the three and nine months ended September 30, 2012, as compared to the three and nine months ended September 30, 2011, respectively. These increases were a result of our new Affiliate investments in 2012 and increases in Affiliate investment earnings. In the nine months ended September 30, 2012, as compared to the nine months ended September 20, 2011, the increase was also attributable to the \$17.7 million gain on the revaluation of contingent payment arrangements that occurred during the first half of 2012.

Net income (controlling interest) increased \$14.8 million (or 37%) in the three months ended September 30, 2012 as compared to the three months ended September 30, 2011. This increase was principally as a result of increases in revenue and income from equity method investments partially offset by increases in operating and interest expenses. Net income (controlling interest) decreased \$25.7 million (or 21%) in the nine months ended September 30, 2012 as compared to the nine months ended September 30, 2011. This decrease was a result of the reduction in carrying value of one of our indefinite-lived intangible assets (\$102.2 million) in the first half of 2012, partially offset by the gains on revaluation of contingent payment arrangements of \$39.6 million in the first half of 2012.

Supplemental Performance Measures

As supplemental information, we provide non-GAAP performance measures that we refer to as Economic net income and Economic earnings per share. We consider Economic net income an important measure of our financial performance, as we believe it best represents our operating performance before non-cash expenses relating to our acquisition of interests in our investment management firms. Economic net income and Economic earnings per share are used by our management and Board of Directors as our principal performance benchmarks, including as measures for aligning executive compensation with stockholder value. These measures are provided in addition to, but not as a substitute for, Net income (controlling interest) and Earnings per share. Economic net income and Economic earnings per share are not liquidity measures and should not be used in place of any liquidity measure calculated under accounting principles generally accepted in the United States ("GAAP").

Under our Economic net income definition, we add to Net income (controlling interest) amortization (including equity method amortization and reductions in the carrying value of our intangible assets), deferred taxes related to intangible assets, non-cash imputed interest expense (principally related to the accounting for convertible securities and contingent payment arrangements) and Affiliate equity expense. We add back amortization attributable to acquired client relationships (because this expense does not correspond to the changes in value of these assets, which do not diminish predictably over time) and other reductions in the carrying value of acquired client relationships, including impairments. The portion of deferred taxes generally attributable to intangible assets (including goodwill) that are no longer amortized but continue to generate tax deductions is added back because we believe it is unlikely these accruals will be used to settle material tax

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obligations. We add back non-cash expenses relating to certain transfers of equity between Affiliate management partners when these transfers have no dilutive effect to shareholders.

Economic earnings per share represents Economic net income divided by the adjusted diluted average shares outstanding, which measures the potential share issuance from our senior convertible securities and junior convertible securities (each further described in Liquidity and Capital Resources) using a "treasury stock" method. Under this method, only the net number of shares of common stock equal to the value of these securities in excess of par, if any, are deemed to be outstanding. We believe the inclusion of net shares under a treasury stock method best reflects the benefit of the increase in available capital resources (which could be used to repurchase shares of common stock) that occurs when these securities are converted and we are relieved of our debt obligation. This method does not take into account any increase or decrease in our cost of capital in an assumed conversion.

The following table provides a reconciliation of Net income (controlling interest) to Economic net income:

| <i>(in millions, except per share data)</i> | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|---|-----------------|--|-----------------|
| | 2011 | 2012 | 2011 | 2012 |
| Net income (controlling interest) | \$ 40.1 | \$ 54.9 | \$ 124.6 | \$ 98.9 |
| Intangible amortization and impairments ⁽¹⁾⁽²⁾ | 26.9 | 29.9 | 80.9 | 184.1 |
| Intangible-related deferred taxes ⁽³⁾ | 10.4 | 11.7 | 36.2 | 0.1 |
| Imputed interest and contingent payment arrangements ⁽⁴⁾ | 4.3 | 4.0 | 13.1 | (12.7) |
| Affiliate equity expense | 0.4 | 0.7 | 3.7 | 1.9 |
| Economic net income | \$ 82.1 | \$ 101.2 | \$ 258.5 | \$ 272.3 |
| Average shares outstanding diluted | 53.0 | 53.0 | 53.2 | 52.9 |
| Assumed issuance of senior convertible securities shares | | | | |
| Assumed issuance of junior convertible securities shares | | | | |
| Dilutive impact of senior convertible securities shares | | | | |
| Dilutive impact of junior convertible securities shares | | | | |
| Average shares outstanding adjusted diluted | 53.0 | 53.0 | 53.2 | 52.9 |
| Economic earnings per share | \$ 1.55 | \$ 1.91 | \$ 4.86 | \$ 5.15 |

- (1) We are required to use the equity method of accounting for certain of our investments and, as such, do not separately report these Affiliates' revenues or expenses (including intangible amortization) in our income statement. Our share of these investments' amortization, \$8.2 million and \$10.2 million for the three months ended September 30, 2011 and 2012, respectively, and \$24.8 million and \$26.5 million for the nine months ended September 30, 2011 and 2012, respectively, is reported in Income from equity method investments.
- (2) Our reported intangible amortization, \$22.1 million and \$24.0 million for the three months ended September 30, 2011 and 2012, respectively, includes \$3.4 million and \$4.3 million, respectively, of amortization attributable to our non-controlling interests, amounts not added back to Net income (controlling interest) to measure our Economic net income. Our reported intangible amortization, \$66.3 million and \$169.1 million for the nine months ended September 30, 2011 and 2012, respectively, includes \$10.2 million and \$11.5 million, respectively, of amortization attributable to our non-controlling interests. The reported intangible amortization for the nine months ended September 30, 2012 includes a \$102.2 million expense associated with the reduction of carrying value of an indefinite-lived intangible asset at one of our Affiliates during the first half of 2012.

(3) As described in Note (2) above, we reduced the carrying value of certain of our indefinite-lived intangible assets during the first half of 2012 which resulted in a \$38.8 million decrease in our intangible-related deferred taxes.

(4) Our reported Imputed interest expense and contingent payment arrangements, \$8.3 million and \$6.7 million for the three months ended September 30, 2011 and 2012, respectively, include \$1.5 million and \$0.7 million of imputed interest attributable to our non-controlling interests, amounts not added back to Net income (controlling interest) to measure our Economic net income. Our reported Imputed interest expense and contingent payment arrangements, \$24.9 million and (\$35.7) million for the nine months ended September 30, 2011 and 2012, respectively, include \$4.4 million and (\$14.6) million of imputed interest attributable to our non-controlling interests. In the first half of 2012, we changed our estimate of payments to be made under certain of our contingent payment arrangements and recognized a gain totaling \$57.3 million (\$39.6 million attributable to the controlling interest) as a result of this change.

Liquidity and Capital Resources

The following table summarizes certain key financial data relating to our liquidity and capital resources:

| <i>(in millions)</i> | December 31, 2011 | September 30, 2012 |
|---|----------------------|-----------------------|
| Balance Sheet Data | | |
| Cash and cash equivalents | \$ 449.5 | \$ 372.6 |
| Senior bank debt | 250.0 | 445.0 |
| Senior notes | | 200.0 |
| Senior convertible securities | 435.6 | 446.5 |
| Junior convertible trust preferred securities | 512.6 | 514.8 |

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|-----------------------|--|----------|---|----------|
| | 2011 | 2012 | 2011 | 2012 |
| Cash Flow Data | | | | |
| Operating cash flow | \$ 242.2 | \$ 211.1 | \$ 549.9 | \$ 447.1 |
| Investing cash flow | (42.8) | (354.0) | (59.1) | (747.9) |
| Financing cash flow | (183.3) | 202.2 | (479.4) | 220.5 |
| EBITDA ⁽¹⁾ | 112.9 | 133.5 | 355.0 | 361.2 |

(1) The definition of EBITDA is presented below under "Supplemental Liquidity Measure".

We view our ratio of debt to EBITDA (our "internal leverage ratio") as an important gauge of our ability to service debt, make new investments and access additional capital. Consistent with industry practice, we do not consider junior trust preferred securities as debt for the purpose of determining our internal leverage ratio. We also view our leverage on a "net debt" basis by deducting from our debt balance holding company cash. At September 30, 2012, our internal leverage ratio was 2.0:1.

Under the terms of our credit facility we are required to meet two financial ratio covenants. The first of these covenants is a maximum ratio of debt to EBITDA (the "bank leverage ratio") of 3.0. The calculation of our bank leverage ratio is generally consistent with our internal leverage ratio approach. The second covenant is a minimum EBITDA to cash interest expense ratio of 3.0 (our "bank interest coverage ratio"). For purposes of calculating these ratios, share-based compensation expense is added back to EBITDA. As of September 30, 2012, our actual bank leverage and bank interest coverage ratios were 2.0 and 7.7, respectively, and we were in compliance with all terms of our credit facility. As of September 30, 2012, we had \$630.0 million of remaining capacity under our credit facility, of which we could borrow approximately \$580.0 million and remain in compliance with our credit agreement.

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We are rated BBB- by both Standard & Poor's and Fitch rating agencies. With the exception of a modest increase in the borrowing rate under our credit facility (0.50%), a downgrade of our credit rating would have no direct financial effect on any of our agreements or securities (or otherwise trigger a default).

Supplemental Liquidity Measure

As supplemental information, we have provided information regarding our EBITDA, a non-GAAP liquidity measure. This measure is provided in addition to, but not as a substitute for, cash flow from operating activities. EBITDA represents earnings before interest expense, income taxes, depreciation and amortization. EBITDA, as calculated by us, may not be consistent with computations of EBITDA by other companies. As a measure of liquidity, we believe that EBITDA is useful as an indicator of our ability to service debt, make new investments and meet working capital requirements. We further believe that many investors use this information when analyzing the financial position of companies in the investment management industry.

The following table provides a reconciliation of cash flow from operations to EBITDA:

| <i>(in millions)</i> | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|--|---|--------------|--|--------------|
| | 2011 | 2012 | 2011 | 2012 |
| Cash flow from operating activities | \$ 242.2 | \$ 211.1 | \$ 549.9 | \$ 447.1 |
| Interest expense, net of non-cash items ⁽¹⁾ | 16.3 | 19.7 | 49.4 | 53.1 |
| Current tax provision | 1.9 | 8.8 | 31.9 | 31.1 |
| Income from equity method investments, net of distributions ⁽²⁾ | (9.0) | 8.8 | (45.6) | (5.5) |
| Net income (non-controlling interests) | (40.0) | (63.2) | (145.9) | (173.1) |
| Changes in assets and liabilities | (75.7) | (34.7) | (19.5) | 48.6 |
| Other non-cash adjustments ⁽³⁾ | (22.8) | (17.0) | (65.2) | (40.1) |
| EBITDA | \$ 112.9 | \$ 133.5 | \$ 355.0 | \$ 361.2 |

-
- (1) Non-cash items include Amortization of issuance costs and Imputed interest and contingent payment arrangements (\$10.1 million and \$8.7 million for the three months ended September 30, 2011 and 2012, respectively and \$31.1 million and (\$30.0) million for the nine months ended September 30, 2011 and 2012, respectively).
- (2) Distributions from equity method investments were \$27.0 million and \$20.8 million for the three months ended September 30, 2011 and 2012, respectively and \$110.5 million and \$79.2 million for the nine months ended September 30, 2011 and 2012, respectively.
- (3) Other non-cash adjustments include share-based compensation expense, tax benefits from stock options and other adjustments to reconcile Net income (controlling interest) to net cash flow from operating activities.

In the nine months ended September 30, 2012, we met our cash requirements primarily through cash generated by operating activities, borrowings under our revolver and the issuance of the 2042 Senior Notes. Our principal uses of cash were to make investments in new Affiliates, make distributions to Affiliate partners and repay our other liabilities. We expect that our principal uses of cash for the foreseeable future will be for investments in new and existing Affiliates, settlement of contingent payment arrangements, distributions to Affiliate partners, payment of principal and interest on outstanding debt, and for working capital purposes.

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The following table summarizes the principal amount due at maturity of our debt obligations and convertible securities as of September 30, 2012:

| <i>(in millions)</i> | Amount | Maturity Date | Form of Repayment |
|---|---------------|--------------------------|------------------------------|
| Senior bank debt | \$ 445.0 | 2016 | (1) |
| Senior notes | 200.0 | 2042 | (2) |
| Senior convertibles securities | 460.0 | 2038 | (3) |
| Junior convertible trust preferred securities | 730.8 | 2036/2037 | (4) |

- (1) Settled in cash.
- (2) Settled in cash on or after August 15, 2017.
- (3) Settled in cash if holders exercise their August 2013, 2018, 2023, 2028 or 2033 put rights, and in cash or common stock at our election if the holders exercise their conversion rights.
- (4) Settled in cash or common stock (or a combination thereof) at our election if the holders exercise their conversion rights.

Senior Bank Debt

We have a \$1,075.0 million senior unsecured credit facility (the "credit facility"), consisting of a \$825.0 million revolving credit facility (the "revolver") and a \$250.0 million term loan (the "term loan") and pays interest on any outstanding obligations at specified rates (based either on the LIBOR rate or the prime rate as in effect from time to time). A portion of the revolver (\$30.0 million) matures in January 2015 with the balance of \$795.0 million and the term loan maturing in November 2016. Subject to certain conditions, we may increase the revolver and the term loan by up to \$75.0 million and \$250.0 million, respectively.

The credit facility is unsecured and contains financial covenants with respect to leverage and interest coverage, as well as customary affirmative and negative covenants, including limitations on indebtedness, liens, cash dividends, asset dispositions and fundamental corporate changes.

Senior Notes

As of September 30, 2012 we had \$200.0 million aggregate principal amount of 2042 Senior Notes. The unsecured 2042 Senior Notes pay interest quarterly and may be redeemed at any time, on or after August 15, 2017. The 2042 Senior Notes' indenture includes customary provisions regarding events of default.

In October 2012, we sold \$140.0 million aggregate principal amount of 5.25% Senior Notes due 2022 (the "2022 Senior Notes"). The unsecured 2022 Senior Notes pay interest quarterly and may be redeemed at any time, on or after October 15, 2015. The 2022 Senior Notes' indenture includes customary provisions regarding events of default.

We used the net proceeds from both the 2042 Senior Notes and the 2022 Senior Notes to repay outstanding indebtedness under our revolver.

Convertible Securities

At September 30, 2012, we have one senior convertible security outstanding ("2008 senior convertible notes") and two junior convertible trust preferred securities outstanding, one issued in 2006

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(the "2006 junior convertible trust preferred securities") and a second issued in 2007 (the "2007 junior convertible trust preferred securities"). The principal terms of these securities are summarized below.

| | 2008 Senior Convertible Notes | 2007 Junior Convertible Trust Preferred Securities | 2006 Junior Convertible Trust Preferred Securities |
|--|--|---|---|
| Issue date | August 2008 | October 2007 | April 2006 |
| Maturity date | August 2038 | October 2037 | April 2036 |
| Next potential put date | August 2013 | N/A | N/A |
| Par value (<i>in millions</i>) | \$ 460.0 | \$ 430.8 | \$ 300.0 |
| Carrying value (<i>in millions</i>) ⁽¹⁾ | 446.5 | 299.0 | 215.7 |
| Denomination | 1,000 | 50 | 50 |
| Current conversion rate | 7.959 | 0.250 | 0.333 |
| Current conversion price | \$ 125.65 | \$ 200.00 | \$ 150.00 |
| Stated coupon | 3.95% | 5.15% | 5.10% |
| Coupon frequency | Semi-annually | Quarterly | Quarterly |
| Tax deduction rate ⁽²⁾ | 9.38% | 8.00% | 7.50% |

- (1) The carrying value is accreted to the principal amount at maturity over an expected life of five years for the 2008 senior convertible notes and 30 years for each of the junior convertible trust preferred securities.
- (2) These convertible securities are considered contingent payment debt instruments under federal income tax regulations, which require us to deduct interest in an amount greater than our reported Interest expense.

Derivative Instruments

From time to time, we seek to offset our exposure to changing interest rates under our debt financing arrangements by entering into interest rate hedging contracts. These instruments are designated as cash flow hedges with changes in fair value recorded in Other comprehensive income for the effective portion of the hedge.

We have entered into interest rate swap contracts to exchange a fixed rate for the variable rate on a portion of our credit facility. These contracts expire between 2015 and 2017. Under these contracts, we will pay a weighted average fixed rate of 1.76% on a notional amount of \$100.0 million through October 2015. Thereafter, through October 2017, we will pay a weighted average fixed rate of 2.14% on a remaining notional amount of \$25.0 million. As of September 30, 2012, the unrealized loss (before taxes) on these contracts was \$4.3 million.

In prior years, we entered into treasury rate lock contracts which were settled in 2011 for a net pre-tax loss of \$0.7 million. The net loss on these contracts is reflected as a component of Other comprehensive income and will be reclassified to earnings over the life of the 2022 Senior Notes.

Forward Equity Sale Agreement

In August 2012, we amended our forward equity agreement to increase the shares of common stock we may sell to an aggregate of \$400.0 million. During the quarter ended September 30, 2012, we entered into contracts to sell a notional amount of \$136.8 million at an average share price of \$121.19. In October 2012, we entered into contracts to sell an additional notional amount of \$10.4 million at an average share price of \$123.88. We have the ability to settle the contracts either by delivering shares of common stock and receiving cash or net settling for cash or shares of common stock. All contracts remain outstanding.

Affiliate Equity

Many of our operating agreements provide us a conditional right to call and Affiliate partners the conditional right to put their retained equity interests at certain intervals. The purchase price of these conditional purchases are generally calculated based upon a multiple of the Affiliate's cash flow distributions, which is intended to represent fair value. Affiliate management partners are also permitted to sell their equity interests to other individuals or entities in certain cases, subject to our approval or other restrictions.

Our current redemption value for these interests has been presented as Redeemable non-controlling interests on our Consolidated Balance Sheets. Although the timing and amounts of these purchases are difficult to predict, we expect to repurchase approximately \$100.0 million of Affiliate equity during 2012, and, in such event, will own the cash flow associated with any equity repurchased.

Operating Cash Flow

Cash flow from operations generally represents Net income plus non-cash charges for amortization, deferred taxes, equity-based compensation and depreciation, as well as increases and decreases in our consolidated working capital.

The decrease in cash flows from operations for the nine months ended September 30, 2012 as compared to the nine months ended September 30, 2011 resulted principally from decreases in investment advisory fees receivable of \$39.5 million, distributions received from equity method investments of \$31.1 million and increases in settlements of Accounts payable and accrued liabilities of \$29.3 million.

Investing Cash Flow

Net cash flow used in investing activities increased \$688.8 million for the nine months ended September 30, 2012 as compared to the nine months ended September 30, 2011, primarily as a result of our investments in Affiliates during the nine months ended September 30, 2012.

Financing Cash Flow

Financing cash flows increased \$699.9 million for the nine months ended September 30, 2012 as compared to the nine months ended September 30, 2011. This was primarily a result of a net increase in bank debt borrowings and repayments of \$445.0 million, an increase in issuance of senior notes of \$200.0 million and a reduction in note payments of \$78.6 million, partially offset by an increase in Affiliate equity issuances and repurchases of \$18.4 million and repurchases of common stock of \$12.9 million.

We financed our investments in Veritable, Yacktman and BlueMountain with available cash and borrowings under our revolver.

Excess tax benefits associated with stock options have been reported as financing cash flows in the amount of \$11.6 million and \$4.9 million as of September 30, 2012 and 2011, respectively.

Under past acquisition agreements, we are contingently liable, upon achievement of specified financial targets, to make payments of up to \$755.5 million through 2017. In 2012, we expect to make total payments of approximately \$85.4 million to settle portions of these contingent arrangements. In addition, we expect to repurchase approximately \$100.0 million of interests in certain existing Affiliates in 2012.

Our Board of Directors has periodically authorized share repurchase programs (most recently October 2011). The maximum number of shares that may be repurchased under outstanding programs

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is approximately 2.3 million. The timing and amount of repurchases are determined at the discretion of management. In the nine months ended September 30, 2012, we repurchased 0.6 million shares for \$60.9 million at an average price per share of \$107.47.

We anticipate that borrowings under the credit facility and proceeds from the settlement of any forward equity contracts, together with cash flows from operations will be sufficient to support our cash flow needs for the foreseeable future.

Contractual Obligations

The following table summarizes our contractual obligations as of September 30, 2012. Contractual debt obligations include the cash payment of fixed interest.

| <i>(in millions)</i> | Payments Due | | | | |
|---|---------------------|------------------------------|------------------|------------------|-------------------|
| Contractual Obligations | Total | Remainder of 2012 | 2013-2014 | 2015-2016 | Thereafter |
| Senior bank debt | \$ 445.0 | \$ | \$ | \$ 445.0 | \$ |
| Senior convertible securities ⁽¹⁾ | 932.4 | | 36.3 | 36.3 | 859.8 |
| Junior convertible trust preferred securities | 1,643.5 | 9.2 | 74.1 | 74.1 | 1,486.1 |
| Senior notes | 585.9 | 3.4 | 25.5 | 25.5 | 531.5 |
| Leases | 149.3 | 7.6 | 51.4 | 35.5 | 54.8 |
| Other liabilities ⁽²⁾ | 32.1 | 10.7 | | | 21.4 |
| Derivative instruments | 6.3 | 0.4 | 3.5 | 2.0 | 0.4 |
| Total contractual obligations | \$ 3,794.5 | \$ 31.3 | \$ 190.8 | \$ 618.4 | \$ 2,954.0 |
| Contingent Obligations | | | | | |
| Contingent payment obligations ⁽³⁾ | \$ 279.5 | \$ 85.4 | \$ | \$ 109.3 | \$ 84.8 |

(1) Holders of the 2008 convertible notes may put their interests to us for \$460.0 million in 2013.

(2) Other liabilities reflect amounts payable to Affiliate managers related to our purchase of additional Affiliate equity interests and deferred purchase price payments for acquisitions. This table does not include liabilities for uncertain tax positions or commitments to co-invest in certain investment partnerships (of \$27.9 million and \$75.1 million, respectively, as of September 30, 2012) as we cannot predict when such obligations will be paid.

(3) The amount of contingent payments related to business acquisitions and investments disclosed in the table represents our expected settlement amounts. The maximum settlement amount related to extant investments as of September 30, 2012 is approximately \$370.8 million through 2012 and \$384.8 million in periods thereafter.

Recent Accounting Developments

In May 2011, the Financial Accounting Standards Board issued an update to the fair value measurements and disclosures guidance. The new guidance clarifies existing fair value measurement principles and expands certain disclosure requirements, particularly for measurements categorized as Level 3. The amendment is effective for interim and fiscal periods beginning after December 15, 2011. We adopted this guidance in the first quarter of 2012. Adoption of this new guidance did not have a material impact on our Consolidated Financial Statements.

In July 2012, the Financial Accounting Standards Board issued new guidance that provides the option of performing a qualitative assessment before proceeding with a quantitative impairment test for indefinite-lived intangible assets. Following an assessment of qualitative factors, if an entity determines that it is more likely than not that the fair value of the indefinite-lived asset is greater than its carrying

amount, then a quantitative assessment is unnecessary. This guidance is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012, with early adoption permitted. Adoption of this new guidance is not expected to have a material impact on our Consolidated Financial Statements.

Critical Accounting Estimates and Judgments

Indefinite-Lived Intangible Assets

Indefinite-lived intangible assets are comprised of investment advisory contracts between our Affiliates and their sponsored registered investment companies. Because the contracts are with the registered investment companies themselves, and not with the underlying investors, and the contracts between our Affiliates and the registered investment companies are typically renewed on an annual basis, industry practice under generally accepted accounting principles is to consider the contract life to be indefinite and, as a result, not amortizable.

We perform indefinite-lived intangible asset impairment tests annually, or more frequently should circumstances suggest fair value has declined below the related carrying amount. We assess each of our indefinite-lived intangible assets for impairment by comparing their carrying value to the fair value of the investment advisory contract. During the first half of 2012, we determined that the fair value of an indefinite-lived intangible asset at one of our Affiliates, a manager of growth-oriented U.S. equity mutual funds, had declined below its carrying value and, accordingly, we reduced the asset to its current fair value. The impairments totaled \$102.2 million during the first half of 2012. The fair value of the indefinite-lived intangible asset was determined by discounting the projected future cash flows associated with the underlying mutual fund contracts (such cash flows being dependent upon projected growth). Our discount rates are developed with input from valuation experts. When determining the fair value of this intangible asset during the second quarter of 2012, we also determined that the useful life of this intangible asset was no longer indefinite; accordingly, we reclassified the remaining acquired client relationships to definite-lived. We will now amortize these acquired client relationships over the period we expect to derive future economic benefits. We may recognize future impairments to the extent that we conclude the carrying amount of these contracts are no longer recoverable. No impairments were recognized during the three months ended September 30, 2012.

Contingent Payment Arrangements

Imputed interest expense results, in part, from accreting the fair value of our contingent payment obligations to our projected future payment amounts over the expected life of these arrangements, as well as any changes to our estimate of the future payments. The fair value of our contingent payment arrangements is determined by discounting the projected future payments (such estimates being dependent upon projected revenue) using current market rates. Our discount rates are developed with input from valuation experts. Our expected lives are determined based on the contractual terms of the underlying arrangements.

During the first half of 2012, we reduced our estimate of payments to be made under these arrangements and recognized a gain totaling \$57.3 million (\$39.6 million of which is attributable to the controlling interest). No changes to our estimate of payments occurred during the three months ended September 30, 2012. Changes to our projected future payment amounts could materially affect the amount of Imputed interest expense and contingent payment arrangements we recognize in any period. For example, a 1% change in our assumed discount rate or a 1% change in our projected revenue (assuming all other factors remain constant) at Affiliates with these types of arrangements, would result in an increase or decrease to our Imputed interest expense and contingent payment arrangements of \$1.1 million and \$4.4 million, respectively, of which \$0.1 million and \$2.5 million, respectively, relate to amounts expected to be settled in the fourth quarter of 2012.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no significant changes to our Quantitative and Qualitative Disclosures About Market Risk in the three months ended September 30, 2012. Please refer to Item 7A in our 2011 Annual Report on Form 10-K.

Item 4. Controls and Procedures

We carried out an evaluation under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures during the quarter covered by this Quarterly Report on Form 10-Q. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the quarter covered by this Quarterly Report on Form 10-Q, our disclosure controls and procedures are effective in ensuring that (i) the information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended (the "Exchange Act") is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and (ii) such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer as appropriate to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, we recognize that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and our management necessarily was required to apply its judgment in evaluating and implementing possible controls and procedures. Our disclosure controls and procedures were designed to provide reasonable assurance of achieving their stated objectives and our principal executive officer and principal financial officers concluded that our disclosure controls and procedures are effective at the reasonable assurance level. We review on an ongoing basis and document our disclosure controls and procedures, and our internal control over financial reporting, and we may from time to time make changes in an effort to enhance their effectiveness and ensure that our systems evolve with our business.

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the quarter covered by this Quarterly Report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

- (a) None.
- (b) None.
- (c) Purchases of Equity Securities by the Issuer.

| Period | Total Number of Shares Purchased | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number of Shares that May Yet Be Purchased Under Outstanding Plans or Programs ⁽¹⁾ |
|----------------------|----------------------------------|------------------------------|--|---|
| July 1 31, 2012 | | \$ | | 2,288,749 |
| August 1 31, 2012 | | | | 2,288,749 |
| September 1 30, 2012 | | | | 2,288,749 |
| Total | | \$ | | |

(1) In February 2007, July 2010 and October 2011, the Board of Directors approved share repurchase programs authorizing us to repurchase up to 3.0 million, 0.5 million and 2.0 million shares, respectively, of our common stock. Purchases may be made from time to time, at management's discretion.

Item 6. Exhibits

The exhibits are listed on the Exhibit Index and are included elsewhere in this Quarterly Report on Form 10-Q.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

AFFILIATED MANAGERS GROUP, INC.
(Registrant)

November 6, 2012

/s/ JAY C. HORGEN

Jay C. Horgen
*on behalf of the Registrant as Chief Financial Officer and Treasurer
(and also as Principal Financial and Principal Accounting Officer)*
54

EXHIBIT INDEX

| Exhibit No. | Description |
|--------------------|--|
| 31.1 | Certification of Registrant's Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification of Registrant's Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certification of Registrant's Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | Certification of Registrant's Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101 | The following financial statements from the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2012 are furnished herewith, formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Statements of Income for the three month periods ended September 30, 2012 and 2011, (ii) the Consolidated Balance Sheets at September 30, 2012 and December 31, 2011, (iii) the Consolidated Statement of Equity for the three month period ended September 30, 2012, (iv) the Consolidated Statements of Cash Flows for the three month periods ended September 30, 2012 and 2011, and (v) the Notes to the Consolidated Financial Statements. |

QuickLinks

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

AFFILIATED MANAGERS GROUP, INC. CONSOLIDATED STATEMENTS OF INCOME (in millions, except per share data) (unaudited)

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

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

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

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

AFFILIATED MANAGERS GROUP, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Item 4. Controls and Procedures

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Item 6. Exhibits

SIGNATURES

EXHIBIT INDEX