AFFILIATED MANAGERS GROUP, INC.
Form 10-Q
November 09, 2015
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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q
(Mark One)

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

For the quarterly period ended September 30, 2015
OR

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

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

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

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

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

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

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

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

There were 54,036,984 shares of the registrant's common stock outstanding on November 2, 2015.

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements

AFFILIATED MANAGERS GROUP, INC.

CONSOLIDATED STATEMENTS OF INCOME

(in millions, except per share data)

(unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2014	2015	2014	2015
Revenue	$640.3	$613.1	$1,869.7	$1,894.7
Operating expenses:				
Compensation and related expenses	258.1	243.7	766.5	788.7
Selling, general and administrative	114.4	107.5	359.5	330.5
Intangible amortization and impairments	28.7	30.5	84.2	86.4
Depreciation and other amortization	4.5	4.5	12.3	13.5
Other operating expenses	10.4	11.7	30.6	33.8
	416.1	397.9	1,253.1	1,252.9
Operating income	224.2	215.2	616.6	641.8
Income from equity method investments	48.4	57.9	149.3	171.2
Other non-operating (income) and expenses:				
Investment and other (income) expense	(2.6)	0.1	(19.2)	(16.6)
Interest expense	19.0	23.6	56.7	68.2
Imputed interest expense and contingent payment arrangements	2.8	0.3	27.6	(40.0)
	19.2	24.0	65.1	11.6
Income before income taxes	253.4	249.1	700.8	801.4
Income taxes	63.5	56.8	173.4	198.5
Net income	189.9	192.3	527.4	602.9
Net income (non-controlling interests)	(86.7)	(83.3)	(247.9)	(237.2)
Net income (controlling interest)	$103.2	$109.0	$279.5	$365.7
Average shares outstanding (basic)	55.6	54.2	54.9	54.5
Average shares outstanding (diluted)	58.8	57.0	56.1	57.4
Earnings per share (basic)	$1.86	$2.01	$5.09	$6.71
Earnings per share (diluted)	$1.82	$1.98	$4.98	$6.57

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,	
	2014	2015	2014	2015
Net income	$189.9	$192.3	$527.4	$602.9
Other comprehensive income (loss):				
Foreign currency translation adjustment	(34.2)	(46.1)	(22.6)	(57.9)
Change in net realized and unrealized gain on derivative securities, net of tax	0.3	(0.6)	0.6	1.6
Change in net unrealized gain (loss) on investment securities, net of tax	4.1	(53.1)	(4.6)	3.5
Other comprehensive loss	(29.8)	(99.8)	(26.6)	(52.8)
Comprehensive income	160.1	92.5	500.8	550.1
Comprehensive income (non-controlling interests)	(77.4)	(72.1)	(242.5)	(228.7)
Comprehensive income (controlling interest)	$82.7	$20.4	$258.3	$321.4

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

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

	December 31, 2014	September 30, 2015
Assets		
Cash and cash equivalents	$ 550.6	$ 541.7
Receivables	425.9	466.2
Investments in marketable securities	172.6	171.8
Other investments	167.2	158.3
Fixed assets, net	95.4	106.9
Goodwill	2,652.8	2,647.3
Acquired client relationships, net	1,778.4	1,699.7
Equity method investments in Affiliates	1,783.5	1,669.9
Other assets	71.7	73.4
Total assets	$ 7,698.1	$ 7,535.2
Liabilities and Equity		
Payables and accrued liabilities	$ 808.3	$ 699.3
Senior bank debt	855.0	410.0
Senior notes	736.8	1,084.5
Convertible securities	303.1	304.7
Deferred income taxes	491.7	547.5
Other liabilities	214.5	188.0
Total liabilities	3,409.4	3,234.0
Commitments and contingencies (Note 6)		
Redeemable non-controlling interests	645.5	695.3
Equity:		
Common stock	0.6	0.6
Additional paid-in capital	672.2	540.3
Accumulated other comprehensive income (loss)	31.8	(12.5)
Retained earnings	2,163.3	2,529.0
	2,867.9	3,057.4
Less: Treasury stock, at cost	(240.9)	(396.9)
Total stockholders' equity	2,627.0	2,660.5
Non-controlling interests	1,016.2	945.4
Total equity	3,643.2	3,605.9
Total liabilities and equity	$ 7,698.1	$ 7,535.2

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

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

	Total Stockholders' Equity								
	Shares Outstanding	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock at Cost	Non-controlling Interests	Total Equity
December 31, 2013	53.9	$0.5	$479.9	$74.0	$1,711.2	$(131.4)	$1,010.4	$3,144.6
Net income	—	—	—	—	279.5	—	247.9	527.4
Share-based compensation	—	—	22.2	—	—	—	—	22.2
Common stock issued under share-based incentive plans	—	—	(110.2)	—	—	101.3	—	(8.9)
Tax benefit from share-based incentive plans	—	—	58.9	—	—	—	—	58.9
Settlement of senior convertible securities	1.9	0.1	276.4	—	—	—	—	276.5
Share repurchases	—	—	—	—	—	(51.7)	—	(51.7)
Forward equity	—	—	(45.0)	—	—	—	—	(45.0)
Investments in Affiliates	—	—	—	—	—	—	117.1	117.1
Affiliate equity activity	—	—	(50.9)	—	—	—	16.6	(34.3)
Distributions to non-controlling interests	—	—	—	—	—	—	(468.3)	(468.3)
Other comprehensive loss	—	—	—	(21.2)	—	—	(5.4)	(26.6)
September 30, 2014	55.8	$0.6	$631.3	$52.8	$1,990.7	$(81.8)	$918.3	$3,511.9

	Total Stockholders' Equity								
	Shares Outstanding	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock at Cost	Non-controlling Interests	Total Equity
December 31, 2014	55.8	$0.6	$672.2	$31.8	$2,163.3	$(240.9)	$1,016.2	$3,643.2
Net income	—	—	—	—	365.7	—	237.2	602.9
Share-based compensation	—	—	25.5	—	—	—	—	25.5
Common stock issued under share-based incentive plans	—	—	(125.9)	—	—	175.9	—	50.0
	—	—	43.1	—	—	—	—	43.1

Tax benefit from share-based incentive plans								
Share repurchases	—	—	—	—	—	(331.9)	—	(331.9)
Affiliate equity activity	—	—	(74.6)	—	—	—	37.4	(37.2)
Distributions to non-controlling interests	—	—	—	—	—	—	(336.9)	(336.9)
Other comprehensive loss	—	—	—	(44.3)	—	—	(8.5)	(52.8)
September 30, 2015	55.8	$0.6	$540.3	$(12.5)	$2,529.0	$(396.9)	$945.4	$3,605.9

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

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

	For the Nine Months Ended September 30,	
	2014	2015
Cash flow from (used in) operating activities:		
Net income	$527.4	$602.9
Adjustments to reconcile Net income to net Cash flow from operating activities:		
Intangible amortization and impairments	84.2	86.4
Depreciation and other amortization	12.3	13.5
Deferred income tax provision	48.3	77.0
Imputed interest expense and contingent payment arrangements	27.6	(40.0)
Income from equity method investments, net of amortization	(149.3)	(171.2)
Amortization of issuance costs	5.7	6.9
Distributions received from equity method investments	315.4	293.4
Share-based compensation and Affiliate equity expense	82.2	84.7
Other non-cash items	(0.9)	(6.3)
Changes in assets and liabilities:		
Increase in receivables	(95.1)	(25.0)
(Increase) decrease in other assets	(6.8)	0.4
Increase (decrease) in payables, accrued liabilities and other liabilities	179.4	(66.5)
Cash flow from operating activities	1,030.4	856.2
Cash flow from (used in) investing activities:		
Investments in Affiliates	(534.4)	(50.0)
Purchase of fixed assets	(13.7)	(25.5)
Purchase of investment securities	(16.8)	(9.4)
Sale of investment securities	13.9	22.5
Cash flow used in investing activities	(551.0)	(62.4)
Cash flow from (used in) financing activities:		
Borrowings of senior debt	1,016.5	933.3
Repayments of senior debt and convertible securities	(895.6)	(1,031.0)
Issuance of common stock	37.9	54.0
Repurchase of common stock	(51.7)	(379.6)
Note and contingent payments	12.1	16.4
Distributions to non-controlling interests	(468.3)	(336.9)
Affiliate equity issuances and repurchases	(44.8)	(85.7)
Excess tax benefit from share-based compensation	58.6	43.1
Settlement of forward equity sale agreement	(45.0)	—
Other financing items	(5.2)	(8.5)
Cash flow used in financing activities	(385.5)	(794.9)
Effect of foreign exchange rate changes on cash and cash equivalents	(3.3)	(7.8)
Net decrease in cash and cash equivalents	90.6	(8.9)
Cash and cash equivalents at beginning of period	469.6	550.6
Cash and cash equivalents at end of period	$560.2	$541.7
Supplemental disclosure of non-cash financing activities:		
Settlement of 2006 junior convertible securities	$217.8	$—

Stock issued under incentive plans	63.6	10.7
Stock received in settlement of liability	44.7	3.6
Payables recorded under contingent payment arrangements	—	12.9
Payables recorded for Affiliate equity repurchases	20.5	32.7

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

AFFILIATED MANAGERS GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

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

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

2. Recent Accounting Developments

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

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

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

In September 2015, the FASB issued a new standard requiring an acquirer to recognize and disclose adjustments to provisional purchase price allocations, performed in connection with business combinations, in the reporting period that the adjustments are determined. The new standard is effective for interim and fiscal periods beginning after December 15, 2015. The Company is evaluating the impact of this new standard on its Consolidated Financial Statements.

3. Investments in Marketable Securities

Investments in marketable securities at December 31, 2014 and September 30, 2015 were $172.6 million and $171.8 million, respectively. The following is a summary of the cost, gross unrealized gains and losses and fair value of investments classified as available-for-sale and trading at December 31, 2014 and September 30, 2015:

	Available-for-Sale		Trading	
	December 31, 2014	September 30, 2015	December 31, 2014	September 30, 2015
Cost	$125.6	$106.4	$19.5	$21.9
Unrealized Gains	42.8	47.0	2.9	1.9

Unrealized Losses	(18.1)	(3.8)	(0.1)	(1.6)
Fair Value	$150.3	$149.6	$22.3	$22.2

For each of the three and nine months ended September 30, 2014, there were $1.8 million of realized gains on investments classified as available-for-sale. In the three and nine months ended September 30, 2015, there were $0.7 million and $8.7 million of realized gains on investments classified as available-for-sale, respectively. These gains were recorded in Investment and other income. There were no significant realized gains or losses on investments classified as trading in the three and nine months ended September 30, 2014 and September 30, 2015.

4. Variable Interest Entities

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

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

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

	December 31, 2014		September 30, 2015	
Category of Investment	Unconsolidated VIE Net Assets	Carrying Value and Maximum Exposure to Loss	Unconsolidated VIE Net Assets	Carrying Value and Maximum Exposure to Loss
Sponsored investment funds	$8,550.4	$1.2	$5,904.8	$1.1

5. Senior Debt

Senior Bank Debt

On September 22, 2015, the Company entered into a $1.3 billion senior unsecured multicurrency revolving credit facility (the "revolver") and a $350.0 million senior unsecured term loan facility (the "term loan" and, together with the revolver, the "credit facilities"). The credit facilities, which replaced previous credit facilities, both mature on September 30, 2020.

Subject to certain conditions, the Company may increase commitments under the revolver by up to an additional $500.0 million and may borrow up to an additional $100.0 million under the term loan. The Company pays interest on any outstanding obligations under the revolver and on the term loan at specified rates, based either on the LIBOR rate or the prime rate as in effect from time to time.

The credit facilities contain financial covenants with respect to leverage and interest coverage, as well as customary affirmative and negative covenants, including limitations on priority indebtedness, asset dispositions and fundamental corporate changes, and certain customary events of default.

Senior Notes

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

On September 22, 2015, the Company delivered a notice to redeem all $140.0 million principal amount outstanding of its 5.25% senior unsecured notes due 2022 (the "2022 senior notes") at a redemption price equal to 100% of the principal amount plus accrued and unpaid interest. As of the October 22, 2015 redemption date, all of the 2022 senior notes have been canceled and retired.

6. Commitments and Contingencies

The Company has committed to co-invest in certain investment partnerships. As of September 30, 2015, these unfunded commitments were $74.8 million and may be called in future periods. In connection with a past acquisition agreement, the Company is contractually entitled to reimbursement from a prior owner for $15.5 million of these commitments if they are called.

The Company is contingently liable, upon achievement by certain Affiliates of specified financial targets, to make payments through 2019 of up to $72.1 million associated with its consolidated Affiliates and $151.0 million associated with its equity method Affiliates. As of September 30, 2015, the Company expected to make payments of $9.9 million (net present value of $7.1 million) of the $72.1 million related to consolidated Affiliates and expected to make no payments related to the Company's equity method Affiliates. The Company does not expect to make any payments associated with these contingent arrangements during the remainder of 2015.

7. Fair Value Measurements

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

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

	September 30, 2015	Fair Value Measurements: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Financial Assets				
Cash equivalents	$ 49.0	$49.0	$—	$ —
Investments in marketable securities[1]				
Trading securities	22.2	22.2	—	—
Available-for-sale securities	149.6	149.6	—	—
Other investments	158.3	20.2	5.7	132.4
Foreign currency forward contracts[3]	0.8	—	0.8	—
Financial Liabilities				
Contingent payment arrangements[2]	$ 7.1	$—	$—	$ 7.1
Obligations to related parties[2]	97.8	—	—	97.8
Interest rate swaps[2]	0.7	—	0.7	—
Foreign currency forward contracts[3]	0.2	—	0.2	—

(1) Principally investments in equity securities.

(2) Amounts are presented within Other liabilities in the accompanying Consolidated Balance Sheets.

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

(3) Amounts are presented within Other assets or Other liabilities in the accompanying Consolidated Balance Sheets.

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

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

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

Other investments consist primarily of funds advised by Affiliates and are valued using NAV. Investments in daily redeeming funds that calculate NAVs are classified as Level 1. Investments in funds that permit redemptions monthly or quarterly are classified as Level 2. Investments in funds that are subject to longer redemption restrictions are classified as Level 3. The fair value of Level 3 assets is determined using NAV one quarter in arrears (adjusted for current period calls and distributions).

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

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

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

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

Level 3 Financial Assets and Liabilities

The following tables present the changes in Level 3 assets and liabilities for the three and nine months ended September 30, 2014 and 2015:

	For the Three Months Ended September 30,					
	2014			2015		
	Other Investments	Contingent Payment Arrangements	Obligations to Related Parties	Other Investments	Contingent Payment Arrangements	Obligations to Related Parties
Balance, beginning of period	$139.5	$55.1	$98.4	$133.4	$6.7	$127.3
Net gains/losses	2.7 (1)	1.9 (2)	1.3 (3)	2.0 (1)	0.4 (2)	2.1 (3)
Purchases and issuances	3.7	—	11.1	5.9	—	33.8
Settlements and reductions	(8.2)	—	(18.1)	(8.9)	—	(65.4)
Net transfers in and/or out of Level 3	—	—	—	—	—	—
	$137.7	$57.0	$92.7	$132.4	$7.1	$97.8

Balance, end of period						
Net unrealized gains/losses relating to instruments still held at the reporting date	$4.4 (1)	$ 1.9 (2)	$ 0.2 (3)	$6.0 (1)	$ 0.4 (2)	$ (0.3) (3)

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

	For the Nine Months Ended September 30, 2014			2015		
	Other Investments	Contingent Payment Arrangements	Obligations to Related Parties	Other Investments	Contingent Payment Arrangements	Obligations to Related Parties
Balance, beginning of period	$ 131.8	$ 50.2	$ 76.9	$ 134.2	$ 59.3	$ 93.1
Net gains/losses	13.7 (1)	6.8 (2)	5.8 (3)	0.2 (1)	(41.2) (2)	4.5 (3)
Purchases and issuances	10.5	—	72.1	12.1	6.5	101.6
Settlements and reductions	(18.3)	—	(62.1)	(20.6)	(17.5)	(101.4)
Net transfers in and/or out of Level 3	—	—	—	6.5	—	—
Balance, end of period	$ 137.7	$ 57.0	$ 92.7	$ 132.4	$ 7.1	$ 97.8
Net unrealized gains/losses relating to instruments still held at the reporting date	$ 17.1 (1)	$ 6.8 (2)	$ 2.2 (3)	$ 9.6 (1)	$ (41.2) (2)	$ (4.4) (3)

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

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

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

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

	Quantitative Information about Level 3 Fair Value Measurements					
	Valuation Techniques	Unobservable Input	Fair Value at December 31, 2014	Range at December 31, 2014	Fair Value at September 30, 2015	Range at September 30, 2015
Contingent payment arrangements	Discounted cash flow	Growth rates	$ 59.3	6%	$ 7.1	(1)% - 9%
		Discount rates		15%		16%
Affiliate equity obligations	Discounted cash flow	Growth rates	21.5	5% - 9%	31.8	3% - 10%
		Discount rates		15% - 16%		15% - 16%

Investments in Certain Entities that Calculate Net Asset Value

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

	December 31, 2014		September 30, 2015	
Category of Investment	Fair Value	Unfunded Commitments	Fair Value	Unfunded Commitments
Private equity funds[1]	$134.2	$67.8	$132.4	$74.8
Other funds[2]	75.8	—	76.9	—
	$210.0	$67.8	$209.3	$74.8

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

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

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

Other Financial Assets and Liabilities Not Carried at Fair Value

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

	December 31, 2014		September 30, 2015		
	Carrying Value	Fair Value	Carrying Value	Fair Value	Fair Value Hierarchy
Senior notes	$736.8	$786.2	$1,084.5	$1,102.4	Level 2
Convertible securities	303.1	532.1	304.7	483.6	Level 2

8. Intangible Assets

Consolidated Affiliates

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

	Goodwill			
	Institutional	Mutual Fund	High Net Worth	Total
Balance, as of December 31, 2014	$1,159.1	$1,125.3	$368.4	$2,652.8
New investments[1]	1.6	—	27.4	29.0
Foreign currency translation	(21.8)	0.7	(13.4)	(34.5)
Balance, as of September 30, 2015	$1,138.9	$1,126.0	$382.4	$2,647.3

	Acquired Client Relationships				
	Definite-lived			Indefinite-lived	Total
	Gross Book Value	Accumulated Amortization	Net Book Value	Net Book Value	Net Book Value
Balance, as of December 31, 2014	$1,255.1	$(565.0)	$690.1	$1,088.3	$1,778.4
New investments[1]	23.6	—	23.6	—	23.6
Intangible amortization and impairments	—	(86.4)	(86.4)	—	(86.4)
Foreign currency translation	(3.6)	—	(3.6)	(12.3)	(15.9)
Balance, as of September 30, 2015	$1,275.1	$(651.4)	$623.7	$1,076.0	$1,699.7

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

Definite-lived acquired client relationships are amortized over their expected useful lives. As of September 30, 2015, these relationships were being amortized over a weighted average life of approximately ten years. The Company recognized amortization expenses for these relationships of $28.7 million and $84.2 million for the three and nine months ended September 30, 2014, respectively, as compared to $30.5 million and $86.4 million for the three and nine months ended September 30, 2015, respectively. Based on relationships existing as of September 30, 2015, the Company estimates that its consolidated annual amortization expense will be approximately $120 million for each of the next five years.

The Company performed its annual goodwill assessment as of September 30, 2015 and no impairments were identified.

Equity Method Investments in Affiliates

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AFFILIATED MANAGERS GROUP, INC.
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The intangible assets at the Company's equity method Affiliates consist of definite-lived and indefinite-lived acquired client relationships and goodwill. As of September 30, 2015, the definite-lived relationships were being amortized over a weighted average life of approximately fourteen years. The Company recognized amortization expense for these relationships of $9.0 million and $23.3 million for the three and nine months ended September 30, 2014, respectively, as compared to $8.6 million and $26.1 million for the three and nine months ended September 30, 2015, respectively. Based on relationships existing as of September 30, 2015, the Company estimates the annual amortization expense will be $34.1 million in 2015 and $31.9 million for each of the next four years.

9. Share-Based Compensation

A summary of share-based compensation is as follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2014	2015	2014	2015
Share-based compensation	$7.0	$8.4	$22.2	$25.5
Tax benefit	2.7	3.2	8.5	9.8

There was $56.8 million and $79.3 million of unrecognized share-based compensation as of December 31, 2014 and September 30, 2015, respectively, which will be recognized over a weighted average period of approximately three years (assuming no forfeitures).

Stock Options

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

	Stock Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)
Unexercised options outstanding—December 31, 2014	2.3	$83.42	
Options granted	0.0	207.61	
Options exercised	(0.9)	65.45	
Options forfeited	(0.0)	101.29	
Unexercised options outstanding—September 30, 2015	1.4	95.34	2.3
Exercisable at September 30, 2015	1.3	92.18	2.2

Restricted Stock

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

	Restricted Stock	Weighted Average Grant Date Value
Unvested units—December 31, 2014	0.4	$182.83
Units granted	0.3	197.97
Units vested	(0.1)	173.72
Units forfeited	(0.0)	189.73
Unvested units—September 30, 2015	0.6	192.22

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

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

10. Affiliate Equity

A summary of Affiliate equity expense is as follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2014	2015	2014	2015
Affiliate equity expense	$14.1	$9.2	$60.0	$59.2
Tax benefit	2.4	1.3	9.6	3.9

Affiliate equity expense attributable to the non-controlling interests was $7.9 million and $35.1 million in the three and nine months ended September 30, 2014, respectively, as compared to $5.9 million and $49.0 million in the three and nine months ended September 30, 2015, respectively. As of December 31, 2014 and September 30, 2015, the Company had $71.1 million and $78.6 million, respectively, of unrecognized Affiliate equity expense, which will be recognized over a weighted average period of approximately four years (assuming no forfeitures). Of this unrecognized expense, $41.6 million and $54.3 million was attributable to the non-controlling interests, respectively.

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

	Redeemable Non-controlling Interests
Balance, as of December 31, 2014	$ 645.5
Transactions in Redeemable non-controlling interests	(92.5)
Changes in redemption value	142.3
Balance, as of September 30, 2015	$ 695.3

During the three and nine months ended September 30, 2014 and 2015, the Company acquired interests from, and transferred interests to, holders of Affiliate equity. 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,	
	2014	2015	2014	2015
Net income (controlling interest)	$103.2	$109.0	$279.5	$365.7
Decrease in controlling interest paid-in capital from purchases and sales of Affiliate equity	(3.6)	(17.4)	(17.1)	(49.0)
Change from Net income (controlling interest) and net transfers with non-controlling interests	$99.6	$91.6	$262.4	$316.7

11. Income Taxes

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

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2014	2015	2014	2015
Controlling interests:				
Current tax	$41.7	$36.7	$114.3	$112.1
Intangible-related deferred taxes	19.0	21.1	54.2	62.3
Other deferred taxes	(0.7)	(3.6)	(5.3)	15.2
Total controlling interests	60.0	54.2	163.2	189.6
Non-controlling interests:				
Current tax	$3.7	$2.8	$10.8	$9.4
Deferred taxes	(0.2)	(0.2)	(0.6)	(0.5)
Total non-controlling interests	3.5	2.6	10.2	8.9
Provision for income taxes	$63.5	$56.8	$173.4	$198.5
Income before income taxes (controlling interest)	$163.2	$163.2	$442.7	$555.3
Effective tax rate attributable to controlling interest[(1)]	36.8%	33.2%	36.9%	34.1%

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

The effective tax rate attributable to controlling interest was 36.8% and 36.9% for the three and nine months ended September 30, 2014, respectively, as compared to 33.2% and 34.1% for the three and nine months ended September 30, 2015, respectively. The decrease resulted primarily from an indefinite reinvestment of $6.3 million and $18.8 million of non-U.S. earnings in the three and nine months ended September 30, 2015, respectively.

As of September 30, 2015, the Company carried a liability for uncertain tax positions of $27.4 million, including $2.1 million for interest and related charges. At September 30, 2015, this liability also included $25.6 million for tax positions that, if recognized, would affect the Company’s effective tax rate.

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

12. 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.

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2014	2015	2014	2015
Numerator				
Net income (controlling interest)	$103.2	$109.0	$279.5	$365.7
Convertible securities interest expense, net	3.8	3.8	—	11.5
Net income (controlling interest), as adjusted	$107.0	$112.8	$279.5	$377.2
Denominator				
Average shares outstanding (basic)	55.6	54.2	54.9	54.5
Effect of dilutive instruments:				
Stock options and restricted stock	1.1	0.6	1.1	0.7
Forward equity	—	—	0.1	—
Junior convertible securities	2.1	2.2	—	2.2
Average shares outstanding (diluted)	58.8	57.0	56.1	57.4

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2014	2015	2014	2015
Stock options and restricted stock	0.2	0.0	0.2	0.0
Junior convertible securities	—	—	2.6	—

13. Comprehensive Income

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

	For the Three Months Ended September 30,					
	2014			2015		
	Pre-Tax	Tax Benefit (Expense)	Net of Tax	Pre-Tax	Tax Benefit (Expense)	Net of Tax
Foreign currency translation adjustment	$(34.2)	$—	$(34.2)	$(46.1)	$—	$(46.1)
Change in net realized and unrealized gain (loss) on derivative securities	0.4	(0.1)	0.3	(0.6)	0.0	(0.6)
Change in net unrealized gain (loss) on investment securities	6.7	(2.6)	4.1	(85.7)	32.6	(53.1)
Other comprehensive income (loss)	$(27.1)	$(2.7)	$(29.8)	$(132.4)	$32.6	$(99.8)

	For the Nine Months Ended September 30,					
	2014			2015		
	Pre-Tax	Tax Benefit (Expense)	Net of Tax	Pre-Tax	Tax Benefit (Expense)	Net of Tax
Foreign currency translation adjustment	$(22.6)	$—	$(22.6)	$(57.9)	$—	$(57.9)
Change in net realized and unrealized gain (loss) on derivative securities	0.9	(0.3)	0.6	1.8	(0.2)	1.6
Change in net unrealized gain (loss) on investment securities	(7.2)	2.6	(4.6)	5.0	(1.5)	3.5
Other comprehensive income (loss)	$(28.9)	$2.3	$(26.6)			