

AFFILIATED MANAGERS GROUP, INC.

Form 10-Q

August 02, 2018

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UNITED STATES  
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 June 30, 2018

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 04-3218510

(State or other jurisdiction (IRS Employer Identification Number)  
of incorporation or organization)

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  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, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 53,431,948 shares of the registrant’s common stock outstanding on August 1, 2018.

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## PART I—FINANCIAL INFORMATION

## Item 1. Financial Statements

AFFILIATED MANAGERS GROUP, INC.  
CONSOLIDATED STATEMENTS OF INCOME

(in millions, except per share data)

(unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2018	2017	2018
Consolidated revenue	\$570.9	\$600.1	\$1,115.2	\$1,212.6
Consolidated expenses:				
Compensation and related expenses	242.2	241.0	484.2	507.7
Selling, general and administrative	89.1	105.2	177.8	211.6
Intangible amortization and impairments	22.0	23.2	43.9	46.4
Interest expense	23.1	21.4	45.6	43.0
Depreciation and other amortization	4.9	5.7	10.1	11.2
Other expenses (net)	13.6	11.1	25.0	23.2
Total consolidated expenses	394.9	407.6	786.6	843.1
Equity method income (net)	75.0	35.3	160.9	131.6
Investment and other income	15.9	11.5	30.7	25.7
Income before income taxes	266.9	239.3	520.2	526.8
Income tax expense	62.5	34.1	122.2	97.5
Net income	204.4	205.2	398.0	429.3
Net income (non-controlling interests)	(78.1 )	(88.2 )	(149.2 )	(159.3 )
Net income (controlling interest)	\$126.3	\$117.0	\$248.8	\$270.0
Average shares outstanding (basic)	56.3	54.0	56.5	54.3
Average shares outstanding (diluted)	58.7	54.2	59.0	56.8
Earnings per share (basic)	\$2.24	\$2.17	\$4.40	\$4.97
Earnings per share (diluted)	\$2.22	\$2.16	\$4.35	\$4.92
Dividends per share	\$0.20	\$0.30	\$0.40	\$0.60

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

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2018	2017	2018
Net income	\$204.4	\$205.2	\$398.0	\$429.3
Other comprehensive income (loss):				
Foreign currency translation gain (loss)	26.9	(20.2 )	39.1	8.9
Change in net realized and unrealized gain (loss) on derivative securities, net of tax	(0.6 )	0.0	(0.9 )	0.3
Change in net unrealized gain (loss) on investment securities, net of tax	(4.0 )	—	0.9	—
Other comprehensive income (loss)	22.3	(20.2 )	39.1	9.2
Comprehensive income	226.7	185.0	437.1	438.5
Comprehensive income (non-controlling interests)	(86.1 )	(73.8 )	(159.8 )	(153.4 )
Comprehensive income (controlling interest)	\$140.6	\$111.2	\$277.3	\$285.1

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

AFFILIATED MANAGERS GROUP, INC.  
CONSOLIDATED CONDENSED BALANCE SHEETS

(in millions)

(unaudited)

	December 31, 2017	June 30, 2018
Assets		
Cash and cash equivalents	\$ 439.5	\$ 392.8
Receivables	433.8	485.9
Goodwill	2,662.5	2,648.6
Acquired client relationships (net)	1,449.7	1,393.3
Equity method investments in Affiliates (net)	3,304.7	3,134.0
Fixed assets (net)	111.0	109.2
Investments and other assets	300.9	326.7
Total assets	\$ 8,702.1	\$ 8,490.5
Liabilities and Equity		
Payables and accrued liabilities	\$ 807.2	\$ 662.9
Senior debt	1,550.3	1,576.7
Convertible securities	304.4	305.9
Deferred income tax liability (net)	467.4	471.7
Other liabilities	182.4	162.4
Total liabilities	3,311.7	3,179.6
Commitments and contingencies (Note 5)		
Redeemable non-controlling interests	811.9	953.5
Equity:		
Common stock (\$0.01 par value, 153.0 shares authorized; 58.5 shares outstanding in 2017 and 2018)	0.6	0.6
Additional paid-in capital	808.6	679.7
Accumulated other comprehensive loss	(21.8	) (6.7 )
Retained earnings	3,698.5	3,935.5
	4,485.9	4,609.1
Less: Treasury stock, at cost (3.4 shares in 2017 and 5.1 shares in 2018)	(663.7	) (969.8 )
Total stockholders' equity	3,822.2	3,639.3
Non-controlling interests	756.3	718.1
Total equity	4,578.5	4,357.4
Total liabilities and equity	\$ 8,702.1	\$ 8,490.5

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	Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock at Cost	Non- controlling Interests	Total Equity
December 31, 2016	58.5	\$0.6	\$1,073.5	\$ (122.9 )	\$3,054.4	\$(386.0)	\$ 806.9	\$4,426.5
Net income	—	—	—	—	248.8	—	149.2	398.0
Other comprehensive income	—	—	—	28.5	—	—	10.6	39.1
Share-based compensation	—	—	19.7	—	—	—	—	19.7
Common stock issued under share-based incentive plans	—	—	(79.1 )	—	—	89.4	—	10.3
Share repurchases	—	—	—	—	—	(202.2 )	—	(202.2 )
Dividends (\$0.40 per share)	—	—	—	—	(22.9 )	—	—	(22.9 )
Issuance costs and other	—	—	0.3	—	—	—	—	0.3
Affiliate equity activity:								
Affiliate equity expense	—	—	7.1	—	—	—	21.4	28.5
Issuances	—	—	(0.2 )	—	—	—	2.5	2.3
Repurchases	—	—	33.8	—	—	—	—	33.8
Changes in redemption value of Redeemable non-controlling interests	—	—	(142.8 )	—	—	—	—	(142.8 )
Transfers to Redeemable non-controlling interests	—	—	—	—	—	—	(47.2 )	(47.2 )
Capital contributions by Affiliate equity holders	—	—	—	—	—	—	5.6	5.6
Distributions to non-controlling interests	—	—	—	—	—	—	(178.6 )	(178.6 )
June 30, 2017	58.5	\$0.6	\$912.3	\$ (94.4 )	\$3,280.3	\$(498.8)	\$ 770.4	\$4,370.4



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

	Total Stockholders' Equity							
	Shares Outstanding	Common Stock	Additional Paid-In Capital	Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock at Cost	Non- controlling Interests	Total Equity
December 31, 2017	58.5	\$0.6	\$ 808.6	\$ (21.8 )	\$3,698.5	\$(663.7)	\$ 756.3	\$4,578.5
Net income	—	—	—	—	270.0	—	159.3	429.3
Other comprehensive income (loss)	—	—	—	15.1	—	—	(5.9 )	9.2
Share-based compensation	—	—	21.8	—	—	—	—	21.8
Common stock issued under share-based incentive plans	—	—	(3.5 )	—	—	(5.3 )	—	(8.8 )
Share repurchases	—	—	—	—	—	(300.8 )	—	(300.8 )
Dividends (\$0.60 per share)	—	—	—	—	(33.0 )	—	—	(33.0 )
Affiliate equity activity:								
Affiliate equity expense	—	—	4.8	—	—	—	22.9	27.7
Issuances	—	—	(4.8 )	—	—	—	11.8	7.0
Repurchases	—	—	14.1	—	—	—	—	14.1
Changes in redemption value of Redeemable non-controlling interests	—	—	(161.3 )	—	—	—	—	(161.3 )
Transfers to Redeemable non-controlling interests	—	—	—	—	—	—	(23.4 )	(23.4 )
Capital contributions by Affiliate equity holders	—	—	—	—	—	—	2.4	2.4
Distributions to non-controlling interests	—	—	—	—	—	—	(205.3 )	(205.3 )
June 30, 2018	58.5	\$0.6	\$ 679.7	\$ (6.7 )	\$3,935.5	\$(969.8)	\$ 718.1	\$4,357.4

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 Six Months Ended June 30,	
	2017	2018
Cash flow from (used in) operating activities:		
Net income	\$398.0	\$429.3
Adjustments to reconcile Net income to net cash flow from operating activities:		
Intangible amortization and impairments	43.9	46.4
Depreciation and other amortization	10.1	11.2
Deferred income tax provision	56.0	18.7
Equity method income (net)	(160.9 )	(131.6 )
Distributions of earnings received from equity method investments	283.5	327.8
Share-based compensation and Affiliate equity expense	48.2	49.5
Other non-cash items	(19.6 )	(5.7 )
Changes in assets and liabilities:		
Purchases of securities by Affiliate sponsored consolidated products	(16.4 )	(23.2 )
Sales of securities by Affiliate sponsored consolidated products	15.0	24.1
Increase in receivables	(75.8 )	(60.6 )
Increase in other assets	(4.0 )	(6.0 )
Decrease in payables, accrued liabilities and other liabilities	(134.0 )	(102.6 )
Cash flow from operating activities	444.0	577.3
Cash flow from (used in) investing activities:		
Investments in Affiliates	(30.3 )	(7.3 )
Purchase of fixed assets	(7.2 )	(10.3 )
Purchase of investment securities	(13.6 )	(18.4 )
Sale of investment securities	52.1	10.5
Cash flow from (used in) investing activities	1.0	(25.5 )
Cash flow from (used in) financing activities:		
Borrowings of senior debt	205.0	565.0
Repayments of senior debt	(285.0 )	(540.0 )
Repurchase of common stock	(170.2 )	(323.9 )
Issuance of common stock	29.5	4.1
Dividends paid on common stock	(22.6 )	(32.6 )
Distributions to non-controlling interests	(178.6 )	(205.3 )
Affiliate equity issuances and repurchases	(77.1 )	(50.9 )
Other financing items	(18.2 )	(12.2 )
Cash flow used in financing activities	(517.2 )	(595.8 )
Effect of foreign exchange rate changes on cash and cash equivalents	6.0	(2.7 )
Net decrease in cash and cash equivalents	(66.2 )	(46.7 )
Cash and cash equivalents at beginning of period	430.8	439.5
Cash and cash equivalents at end of period	\$364.6	\$392.8

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

AFFILIATED MANAGERS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

1. Basis of Presentation and Use of Estimates

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 full year financial statements. In the opinion of management, all normal and recurring adjustments considered necessary for a fair presentation of the Company’s interim financial position and results of operations have been included and all intercompany balances and transactions have been eliminated. In the first quarter of 2018, the Company changed its Consolidated Financial Statement presentation to present non-classified Consolidated Statements of Income and Consolidated Condensed Balance Sheets. These changes, along with other 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, 2017 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.

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

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

2. Accounting Standards and Policies

Recently Adopted Accounting Standards

In the first quarter of 2018, the Company adopted several new Accounting Standard Updates (“ASUs”). While none of these ASUs had a significant impact on the Company’s Consolidated Financial Statements, the Company was required to update certain of its significant accounting policies. For a complete list of significant accounting policies, see the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

Revenue Recognition

On January 1, 2018, the Company adopted ASU 2014-09, Revenue from Contracts with Customers (as amended), using a modified retrospective method and, as a result, updated its revenue recognition accounting policy as follows.

Revenue primarily represents asset and performance based fees earned by the Company's Affiliates for managing the assets of clients. Substantially all of the Company’s Affiliate contracts contain a single performance obligation, which is investment management services. Investment management services are performed and consumed simultaneously and, therefore, the Company recognizes asset based fees ratably over time. Broker-dealer and administrative fees for services that are provided and consumed over time, and which are related to Affiliate sponsored investment products, are also included ratably in revenue. Revenue recognized by the Company is adjusted for any expense reimbursement arrangements.

Performance based fees, including carried interests, are recognized only upon the satisfaction of performance obligations, the resolution of any constraints (which may extend over one or more reporting periods) and when it is improbable that there will be a significant reversal in the amount of revenue recognized. As a result, any performance based fees or carried interest recognized in the current reporting period may relate to performance obligations satisfied in a previous reporting period.

Revenue from investment management, broker-dealer and administrative services is typically based on the value of client assets over time, which are typically determined using observable market data. Services may be invoiced in advance or in arrears and are payable upon receipt. Any fees collected in advance are deferred and recognized as the services are performed and consumed.

The Company and certain of its Affiliates have contractual arrangements with third parties to provide distribution-related services. Fees received and expenses incurred under these arrangements are primarily based on the value of client assets over time. Distribution-related fees are presented in revenue gross of any related expenses when the Company or its Affiliate is the

AFFILIATED MANAGERS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

principal in its role as primary obligor under its distribution-related services arrangements. Distribution-related expenses are presented within Selling, general and administrative expenses in the Consolidated Statements of Income.

The Company and its Affiliates may enter into contracts for which the costs to obtain or fulfill the contract are based upon a percentage of the value of a client's future assets under management. The Company and its Affiliates record these variable costs when incurred because they are subject to market volatility and are not estimable upon inception of a contract with a client. Any expenses paid in advance are capitalized and amortized on a systematic basis consistent with the transfer of services, which is the equivalent of recognizing the costs as incurred.

### Investments in Marketable Securities

On January 1, 2018, the Company also adopted ASU 2016-01, Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Financial Liabilities, using a modified retrospective method and, as a result, updated its Investments in marketable securities accounting policy as follows.

Investments in marketable securities are carried at fair value and reported within Investments and other assets on the Consolidated Condensed Balance Sheets. Upon the adoption of ASU 2016-01, the Company no longer classifies these securities as either trading or available-for-sale securities. Realized and unrealized gains or losses on investments in marketable securities are reported within Investment and other income in the Consolidated Statements of Income. Realized gains and losses are recorded on the trade date on a specific identified basis.

### Recent Accounting Developments

In February 2016, the Financial Accounting Standards Board (the "FASB") issued ASU 2016-02, Leases, and subsequently issued several related amendments. The standard requires lessees to record right-of-use assets and lease liabilities arising from most operating leases on the statement of financial position. The standard is effective for interim and annual periods beginning after December 15, 2018 for the Company and its consolidated Affiliates and for interim and annual periods beginning after December 15, 2019 for the Company's equity method Affiliates. The standard must be adopted using a modified retrospective method. The Company anticipates an increase in assets and liabilities for all lease obligations that are currently classified as operating leases, which consist primarily of real estate leases for office space, as well as additional disclosure related to its lease obligations. The ultimate impact of this standard will be dependent on the Company's operating leases at the time of adoption and the discount rate used in determining the net present value of lease liabilities. The Company is evaluating the impact of this standard on its Consolidated Financial Statements.

In January 2017, the FASB issued ASU 2017-04, Intangibles - Goodwill and Other: Simplifying the Accounting for Goodwill Impairment. Under the new standard, a goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value. The standard is effective for interim and annual periods beginning after December 15, 2019, with early adoption permitted. The Company will apply the standard prospectively upon adoption. The Company does not expect the adoption of this standard to have a significant impact on its Consolidated Financial Statements.

In August 2017, the FASB issued ASU 2017-12, Derivative and Hedging Activities, which was intended to reduce the complexity of applying certain aspects of hedge accounting and better aligns risk management activities with financial reporting. The standard is effective for interim and annual periods beginning after December 15, 2018, with early adoption permitted. The Company must adopt the standard using a modified retrospective method. The Company is evaluating the impact of this standard on its Consolidated Financial Statements.

### 3. Investments in Marketable Securities

As of December 31, 2017 and June 30, 2018, the fair value of marketable securities, which are principally equity securities, was \$77.8 million and \$84.1 million, respectively. Investments in marketable securities are reported within Investments and other assets. The following is a summary of the cost, gross unrealized gains and losses and fair value of investments in marketable securities:

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## AFFILIATED MANAGERS GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

	December 31, June 30,	
	2017	2018
Cost	\$ 67.1	\$ 73.9
Unrealized gains	13.0	12.5
Unrealized losses (2.3 )	(2.3 )	(2.3 )
Fair value	\$ 77.8	\$ 84.1

In the three and six months ended June 30, 2017, the Company received proceeds of \$21.0 million and \$58.3 million, respectively, from the sale of investments in marketable securities, and recorded net gains of \$8.4 million and \$15.1 million, respectively. In the three and six months ended June 30, 2018, the Company received proceeds of \$12.1 million and \$25.9 million, respectively, from the sale of investments in marketable securities, and recorded net gains of \$1.3 million and \$4.1 million, respectively.

#### 4. Investments in Affiliates and Affiliate Sponsored Investment Products

In evaluating whether an investment must be consolidated, the Company evaluates the risk, rewards and significant terms of each of its Affiliates and other investments to determine if an investment is considered a voting rights entity (“VRE”) or a variable interest entity (“VIE”). An entity is a VRE when the total equity investment at risk is sufficient to enable the entity to finance its activities independently and when the equity holders have the obligation to absorb losses, the right to receive residual returns and the right to direct the activities of the entity that most significantly impact its economic performance. An entity is a VIE when it lacks one or more of the characteristics of a VRE, which for the Company, are Affiliates structured as partnerships (or similar entities) where the limited partners lack substantive kick-out or substantive participation rights over the general partner. Assessing whether an entity is a VRE or VIE involves judgment. Upon the occurrence of certain events, management reviews and reconsiders its previous conclusion regarding the status of an entity as a VRE or a VIE.

The Company consolidates VREs when it has control over significant operating, financial and investing decisions of the entity. When the Company lacks such control, but is deemed to have significant influence, the Company accounts for the entity under the equity method. Other investments in which the Company does not have rights to exercise significant influence are recorded at fair value, with changes in fair value reflected within Investment and other income.

The Company consolidates VIEs when it is the primary beneficiary of the entity, which is defined as having the power to direct the activities that most significantly impact the VIE’s economic performance and the obligation to absorb losses of or the right to receive benefits from the entity that could potentially be significant to the VIE. The Company applies the equity method of accounting to VIEs where the Company is not the primary beneficiary, but has the ability to exercise significant influence over operating and financial matters of the VIE.

#### Investments in Affiliates

Substantially all of the Company’s Affiliates are considered VIEs and are either consolidated or accounted for under the equity method. A limited number of the Company’s Affiliates are considered VREs and most of these are accounted for under the equity method.

When an Affiliate is consolidated, the portion of the Affiliate’s management equity owners’ earnings attributable to Owners’ Allocation is included in Net income (non-controlling interests) in the Consolidated Statements of Income. Undistributed Operating and Owners’ Allocation attributable to Affiliate management equity owners, along with their share of any tangible or intangible net assets, are presented within Non-controlling interests on the Consolidated Condensed Balance Sheets. Affiliate equity interests where the holder has certain rights to demand settlement are presented, at their current redemption values, as Redeemable non-controlling interests on the Consolidated Condensed

Balance Sheets. The Company periodically issues, sells and repurchases the equity of its consolidated Affiliates. Because these transactions take place between entities that are under common control, any gains or losses attributable to these transactions are required to be included within Additional paid-in capital in the Consolidated Condensed Balance Sheets, net of any related income tax effects in the period the transactions occur.

When an Affiliate is accounted for under the equity method, the Company's share of an Affiliate's earnings or losses, net of amortization and impairments, is included in Equity method income (net) in the Consolidated Statements of Income and the Company's interest in the Affiliate is reported in Equity method investments in Affiliates (net) in the Consolidated Condensed

## AFFILIATED MANAGERS GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Balance Sheets. The Company's share of income taxes incurred directly by Affiliates accounted for under the equity method is recorded within Income tax expense in the Consolidated Statements of Income.

The Company periodically evaluates its equity method Affiliates for impairment. In such impairment evaluations, the Company assesses whether or not the fair value of the investment has declined below its carrying value for a period considered to be other-than-temporary. If the Company determines that a decline in fair value below the carrying value of the investment is other-than-temporary, then the carrying value of the investment is reduced to its fair value and the reduction is recorded in Equity method income (net).

The unconsolidated assets, net of liabilities and non-controlling interests of equity method Affiliates considered VIEs, and the Company's maximum risk of loss, were as follows:

	December 31, 2017		June 30, 2018	
	Unconsolidated VIE Net Assets	Carrying Value and Maximum Exposure to Loss	Unconsolidated VIE Net Assets	Carrying Value and Maximum Exposure to Loss
Affiliates accounted for under the equity method	\$1,594.4	\$ 2,765.7	\$1,122.2	\$ 2,574.4

## Affiliate Sponsored Investment Products

The Company's Affiliates sponsor various investment products where they also act as the investment advisor. These investment products are typically owned primarily by third-party investors; however, certain products are funded with general partner and seed capital investments from the Company and its consolidated Affiliates.

Investors in Affiliate sponsored investment products are generally entitled to substantially all of the economics of these products, except for the management and performance fees earned by consolidated Affiliates or any gains or losses attributable to the Company or its consolidated Affiliates' investments in these products. As a result, the Company does not generally consolidate these products unless the Company and/or the Affiliate's interest in the product is considered substantial. When the Affiliate's interest is considered substantial and the products are consolidated, the Company retains the specialized investment company accounting principles of the underlying products, and all of the underlying investments are carried at fair value in Investments and other assets, with corresponding changes in the investments' fair values reflected in Investment and other income. Purchases and sales of securities are presented within purchases and sales by Affiliate sponsored consolidated products in the Consolidated Statements of Cash Flows. When Affiliates no longer control these products, due to a reduction in ownership or other reasons, the products are deconsolidated.

The Company's carrying value, and maximum exposure to loss from unconsolidated Affiliate sponsored investment products, is its interest in the unconsolidated net assets of the respective products. The net assets of unconsolidated VIEs attributable to Affiliate sponsored investment products, and the Company's carrying value and maximum risk of loss, were as follows:

	December 31, 2017		June 30, 2018	
	Unconsolidated VIE Net Assets	Carrying Value and Maximum Exposure to Loss	Unconsolidated VIE Net Assets	Carrying Value and Maximum Exposure to Loss
Affiliate sponsored investment products	\$2,154.6	\$ 10.2	\$2,264.4	\$ 9.7

## 5. Commitments and Contingencies



From time to time, the Company and its Affiliates may be subject to claims, legal proceedings and other contingencies in the ordinary course of their business activities. Any such matters are 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, as necessary, for matters for which the outcome is probable and the amount of the liability can be reasonably estimated.

The Company has committed to co-invest in certain Affiliate sponsored investment products. As of June 30, 2018, these unfunded commitments were \$122.8 million and may be called in future periods.

## AFFILIATED MANAGERS GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

As of June 30, 2018, the Company was contingently liable, upon the achievement by certain Affiliates of specified financial targets, to make payments through 2020 related to the Company's investments in these Affiliates. For its consolidated Affiliates, the Company was contingently liable for up to \$12.7 million, and expected to make total payments of \$4.5 million (\$2.5 million in 2018). The present value of the total expected payments was \$4.2 million. For its equity method Affiliates, the Company was contingently liable to make payments up to \$170.0 million and expected to make no payments.

Affiliate equity interests provide holders with a conditional right to put their interests to the Company over time. See Note 13. In addition, in connection with an investment in an equity method Affiliate, the Company entered into an arrangement with a minority owner of the Affiliate that gives such owner the right to sell a portion of its ownership interest in the Affiliate to the Company annually beginning in the fourth quarter of 2018. The purchase price of these conditional purchases will be at fair market value on the date of the transaction.

The Company and certain of its consolidated Affiliates operate under regulatory authorities that require the maintenance of minimum financial or capital requirements. Management is not aware of any significant violations of such requirements.

#### 6. Senior Debt

The Company has a senior unsecured multicurrency revolving \$1.45 billion credit facility (the "revolver") and a senior unsecured \$385.0 million term loan facility (the "term loan" and, together with the revolver, the "credit facilities"). In the first quarter of 2018, the Company refinanced the term loan with the same outstanding borrowings and commercial terms, other than interest rates and the maturity date. Subject to certain conditions, the Company may further increase the commitments under the revolver by up to \$350.0 million and borrow up to an additional \$65.0 million under the term loan. The revolver matures on September 30, 2020 and the term loan matures on May 31, 2021.

On July 13, 2018, the Company amended its term loan to convert its denomination from U.S. dollars to pound sterling, which is further described in Note 17.

#### 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:

	Fair Value Measurements			
	December 31, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Financial Assets</b>				
Cash equivalents	\$ 40.4	\$ 40.4	\$ —	\$ —
Investments in marketable securities <sup>(1)</sup>	77.8	77.8	—	—
Foreign currency forward contracts <sup>(1)</sup>	0.2	—	0.2	—
<b>Financial Liabilities<sup>(2)</sup></b>				
Contingent payment arrangements	\$ 9.4	\$ —	\$ —	\$ 9.4
Affiliate equity obligations	49.2	—	—	49.2
Foreign currency forward contracts	0.6	—	0.6	—



## AFFILIATED MANAGERS GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

	Fair Value Measurements			
	June 30, 2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Financial Assets</b>				
Cash equivalents	\$ 30.0	\$ 30.0	\$ —	\$ —
Investments in marketable securities <sup>(1)</sup>	84.1	84.1	—	—
Foreign currency forward contracts <sup>(1)</sup>	1.0	—	1.0	—
<b>Financial Liabilities<sup>(2)</sup></b>				
Contingent payment arrangements	\$ 4.2	\$ —	\$ —	\$ 4.2
Affiliate equity obligations	36.9	—	—	36.9
Foreign currency forward contracts	1.1	—	1.1	—

<sup>(1)</sup> Amounts are presented within Investments and other assets.

<sup>(2)</sup> Amounts are presented within Other liabilities in the Consolidated Condensed Balance Sheets.

The following are descriptions of the financial assets and liabilities measured on a recurring basis at fair value and the fair value methodologies used:

Cash equivalents consist primarily of highly liquid investments in daily redeeming money market funds, without enacted liquidity fees or redemption gates that are valued at net asset value (“NAV”).

Investments in marketable securities consist primarily of investments in publicly traded securities and funds advised by Affiliates that are valued at NAV. Publicly traded securities valued using unadjusted quoted market prices for identical instruments in active markets are classified as level 1. Publicly traded securities valued using quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in markets that are not active are classified as level 2. Investments in funds advised by Affiliates that are valued at NAV are classified as level 1.

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 increases in the discount rate result in a lower obligation.

Affiliate equity obligations include agreements to repurchase Affiliate equity. 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 increases in the discount rate result in a lower obligation.

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 significant transfers of financial assets or liabilities between level 1 and level 2 in the three and six months ended June 30, 2017 and 2018.

Level 3 Financial Assets and Liabilities

The following tables present the changes in level 3 liabilities:

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AFFILIATED MANAGERS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

	For the Three Months Ended June 30,			
	2017		2018	
	Contingent	Affiliate	Contingent	Affiliate
	Payment	Equity	Payment	Equity
	Arrangements	Obligations	Arrangements	Obligations
Balance, beginning of period	\$8.9	\$ 91.5	\$9.8	\$ 79.4
Net realized and unrealized (gains) losses <sup>(1)</sup>	1.7	—	(0.8 )	—
Purchases and issuances <sup>(2)</sup>	—	50.8	—	0.3
Settlements and reductions	(2.8 )	(71.6 )	(4.8 )	(42.8 )
Balance, end of period	\$7.8	\$ 70.7	\$4.2	\$ 36.9
Net change in unrealized (gains) losses relating to instruments still held at the reporting date <sup>(1)</sup>	\$1.7	\$ —	\$0.1	\$ —

	For the Six Months Ended June 30,			
	2017		2018	
	Contingent	Affiliate	Contingent	Affiliate
	Payment	Equity	Payment	Equity
	Arrangements	Obligations	Arrangements	Obligations
Balance, beginning of period	\$8.6	\$ 12.1	\$9.4	\$ 49.2
Net realized and unrealized (gains) losses <sup>(1)</sup>	2.0	—	(0.4 )	—
Purchases and issuances <sup>(2)</sup>	—	150.4	—	45.9
Settlements and reductions	(2.8 )	(91.8 )	(4.8 )	(58.2 )
Balance, end of period	\$7.8	\$ 70.7	\$4.2	\$ 36.9
Net change in unrealized (gains) losses relating to instruments still held at the reporting date <sup>(1)</sup>	\$2.0	\$ —	\$0.3	\$ —

(1) Accretion and changes in the expected value of the Company's contingent payment arrangements and Affiliate equity obligations are recorded in Other expenses (net) in the Consolidated Statements of Income.

(2) Includes transfers from Redeemable non-controlling interests.

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, 2017	Range at December 31, 2017	Fair Value at June 30, 2018	Range at June 30, 2018
Contingent payment arrangements	Discounted cash flow	Growth rates	\$ 9.4	7% - 8%	\$ 4.2	7%
		Discount rates		15% - 16%		15%
Affiliate equity obligations	Discounted cash flow	Growth rates	49.2	0% - 11%	36.9	0% - 11%

Discount rates	12% - 16%	12% - 16%
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Investments Measured at NAV as a Practical Expedient

The Company's Affiliates sponsor investment products in which the Company and Affiliates may make general partner and seed capital investments. The Company uses the NAV of these investments as a practical expedient for their fair value and reports these products within Investments and other assets. The following table summarizes the nature of the Company's investments, unfunded commitments and any related liquidity restrictions or other factors that may impact the ultimate value realized:

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## AFFILIATED MANAGERS GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Category of Investment	December 31, 2017		June 30, 2018	
	Fair Value	Unfunded Commitments	Fair Value	Unfunded Commitments
Private equity funds <sup>(1)</sup>	\$ 156.1	\$ 98.8	\$ 176.6	\$ 122.8
Other funds <sup>(2)</sup>	8.9	—	8.5	—
Other investments <sup>(3)</sup>	\$ 165.0	\$ 98.8	\$ 185.1	\$ 122.8

The Company uses NAV as a practical expedient one quarter in arrears (adjusted for current period calls and distributions) to determine the fair value. 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, which is generally up to 15 years.

<sup>(2)</sup> 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, monthly or quarterly basis.

<sup>(3)</sup> Fair value attributable to the controlling interest was \$80.1 million and \$106.7 million as of December 31, 2017 and June 30, 2018, respectively.

## Other Financial Assets and Liabilities Not Carried at Fair Value

The carrying amount of Receivables and Payables and accrued liabilities which is reported in the Consolidated Condensed Balance Sheets, approximates fair value because of the short-term nature of these instruments. The carrying value of notes receivable, which is reported in Investments and other assets, approximates fair value because interest rates and other terms are at market rates. The carrying value of the credit facilities, which is reported in Senior debt in the Consolidated Condensed Balance Sheets, approximates fair value because the credit facilities have 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, 2017		June 30, 2018		Fair Value Hierarchy
	Carrying Value	Fair Value	Carrying Value	Fair Value	
Senior notes <sup>(1)</sup>	\$ 745.7	\$ 765.2	\$ 746.0	\$ 744.0	Level 2
Convertible securities	309.9	549.8	311.2	513.8	Level 2

<sup>(1)</sup> The carrying value of the senior notes is reported in Senior debt.

## 8. Goodwill and Acquired Client Relationships

The following tables present the changes in the Company's consolidated Affiliates' Goodwill and components of Acquired client relationships (net) in the Consolidated Condensed Balance Sheets:

	Goodwill				
	Total				
Balance, as of December 31, 2017	\$ 2,662.5				
Foreign currency translation	(13.9 )				
Balance, as of June 30, 2018	\$ 2,648.6				
	Acquired Client Relationships (Net)				
	Definite-lived	Indefinite-lived		Total	
	Gross Book Value	Accumulated Amortization	Net Book Value	Net Book Value	Net Book Value
Balance, as of December 31, 2017	\$ 1,295.5	\$ (874.5 )	\$ 421.0	\$ 1,028.7	\$ 1,449.7
Intangible amortization and impairments	—	(46.4 )	(46.4 )	—	(46.4 )



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Foreign currency translation	(1.2 )	—	(1.2 )	(8.8 )	(10.0 )
Balance, as of June 30, 2018	\$1,294.3	\$ (920.9 )	\$373.4	\$ 1,019.9	\$1,393.3

## AFFILIATED MANAGERS GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Definite-lived acquired client relationships are amortized over their expected period of economic benefit. The Company recorded amortization expense within Intangible amortization and impairments in the Consolidated Statements of Income for these relationships of \$22.0 million and \$43.9 million for the three and six months ended June 30, 2017, respectively, and \$23.2 million and \$46.4 million for the three and six months ended June 30, 2018, respectively. Based on relationships existing as of June 30, 2018, the Company estimates that its consolidated annual amortization expense will be approximately \$90 million in each of 2018 and 2019, approximately \$65 million in 2020 and approximately \$40 million in each of 2021 and 2022.

## 9. Equity Method Investments in Affiliates

The following table presents the change in Equity method investments in Affiliates (net):

	Total
Balance, as of December 31, 2017	\$3,304.7
Equity method earnings	218.4
Equity method intangible amortization and impairments	(86.8 )
Distributions of earnings from equity method investments	(327.8 )
Foreign currency translation	31.3
Other	(5.8 )
Balance, as of June 30, 2018	\$3,134.0

Definite-lived acquired relationships at the Company's equity method Affiliates are amortized over their expected period of economic benefit. The Company recognized amortization expense for these relationships of \$24.0 million and \$45.8 million for the three and six months ended June 30, 2017, respectively, and \$23.5 million and \$53.5 million for the three and six months ended June 30, 2018, respectively. Based on relationships existing as of June 30, 2018, the Company estimates the annual amortization expense attributable to its equity method Affiliates will be approximately \$100 million in 2018 and approximately \$90 million in each of 2019, 2020, 2021 and 2022.

During the three months ended June 30, 2018, one of the Company's equity method Affiliates decided to liquidate its funds and return capital to investors. The Company recognized a \$33.3 million expense (\$25.0 million net of tax), which together with an expense recorded in the fourth quarter of 2017, reduced the carrying value of the Company's investment in the Affiliate to zero.

The Company has determined that one of its equity method Affiliates is significant under Rule 10-01(b)(1) of Regulation S-X. For the three and six months ended June 30, 2017, this equity method Affiliate recognized revenue of \$259.2 million and \$524.8 million, respectively, and net income of \$144.4 million and \$293.0 million, respectively. For the three and six months ended June 30, 2018, this equity method Affiliate recognized revenue of \$290.9 million and \$601.7 million, respectively, and net income of \$138.8 million and \$308.4 million, respectively.

## 10. Related Party Transactions

A prior owner of one of the Company's consolidated Affiliates retained interests in certain of the Affiliate's private equity investment partnerships. The prior owner's interests are presented in Other liabilities and were \$61.2 million and \$52.7 million at December 31, 2017 and June 30, 2018, respectively.

The Company and its Affiliates earn asset and performance based fees and incur distribution and other expenses for services provided to Affiliate sponsored investment products. In addition, Affiliate management owners and Company officers may serve as trustees or directors of certain investment vehicles from which an Affiliate earns fees.

The Company had liabilities to related parties for contingent payment arrangements in connection with certain business combinations. The net present value of the total amounts payable were \$9.4 million and \$4.2 million as of December 31, 2017 and June 30, 2018, respectively, and were included in Other liabilities.

The Company has related party transactions in association with its Affiliate equity transactions, as more fully described in Notes 12 and 13.



## AFFILIATED MANAGERS GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

## 11. Share-Based Compensation

The following table presents share-based compensation expense:

	For the Three Months Ended June 30, 2017		For the Six Months Ended June 30, 2018	
Share-based compensation	\$10.3	\$11.1	\$19.7	\$21.8
Tax benefit	4.0	2.8	7.6	5.5

As of December 31, 2017, the Company had unrecognized share-based compensation expense of \$63.5 million. As of June 30, 2018, the Company had unrecognized share-based compensation expense of \$77.7 million, which will be recognized over a weighted average period of approximately two years (assuming no forfeitures).

## Stock Options

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

	Stock Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)
Unexercised options outstanding - December 31, 2017	0.6	\$ 122.04	
Options granted	0.0	203.22	
Options exercised	(0.0 )	97.14	
Options forfeited	(0.0 )	122.40	
Unexercised options outstanding - June 30, 2018	0.6	125.16	3.6
Exercisable at June 30, 2018	0.2	121.63	1.8

For the six months ended June 30, 2017 and 2018, the Company granted stock options with fair values of \$0.4 million and \$0.5 million, respectively. Stock options generally vest over a period of three to four years and expire seven years after the grant date. All options have been granted with exercise prices equal to the closing price of the Company's common stock on the grant date. In certain circumstances, option awards also require certain performance conditions to be satisfied in order for the options to be exercised.

The fair value of options granted was estimated using the Black-Scholes option pricing model and were \$46.49 and \$53.81, per option, for the six months ended June 30, 2017 and 2018, respectively. The weighted average grant date assumptions used to estimate the fair value of options granted were as follows:

	For the Six Months Ended June 30, 2017		2018	
Dividend yield	0.5 %	0.7 %		
Expected volatility	30.1 %	24.6 %		
Risk-free interest rate	2.2 %	2.6 %		
Expected life of options (in years)	5.7	5.7		
Forfeiture rate	— %	— %		

## Restricted Stock

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



## AFFILIATED MANAGERS GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

	Restricted Stock Units	Weighted Average Grant Date Value
Unvested units - December 31, 2017	0.4	\$ 162.32
Units granted	0.2	203.23
Units vested	(0.0 )	202.35
Units forfeited	(0.0 )	152.09
Unvested units - June 30, 2018	0.6	172.73

For the six months ended June 30, 2017 and 2018, the Company granted awards with fair values of \$36.4 million and \$36.7 million, respectively. These awards were valued based on the closing price of the Company's common stock on the grant date and the number of awards expected to be delivered. Awards containing vesting conditions generally require service over a period of three to four years and may also require the satisfaction of certain performance conditions.

## 12. Redeemable Non-Controlling Interests

Affiliate equity interests provide holders with an equity interest in one of the Company's Affiliates, consistent with the structured partnership interests in place at the respective Affiliate. Affiliate equity holders generally have a conditional right to put their interests to the Company at certain intervals (between five and 15 years from the date the equity interest is received or on an annual basis following an Affiliate equity holder's departure). The current redemption value of the Company's Affiliate equity interests is presented as Redeemable non-controlling interests. Changes in the current redemption value are recorded to Additional paid-in capital. When the Company has an unconditional obligation to repurchase Affiliate equity interests, they are reclassified to Other liabilities. The following table presents the changes in Redeemable non-controlling interests:

	Redeemable Non-controlling interests
Balance, as of December 31, 2017	\$ 811.9
Changes attributable to consolidated products	2.8
Transfers to Other liabilities	(45.9 )
Transfers from Non-controlling interests	23.4
Changes in redemption value	161.3
Balance, as of June 30, 2018	\$ 953.5

## 13. Affiliate Equity

Affiliate equity interests are allocated income in a manner that is consistent with the structured partnership interests in place at the respective Affiliate. The Company's Affiliates generally pay quarterly distributions to Affiliate equity holders. For the six months ended June 30, 2017 and 2018, distributions paid to Affiliate equity holders (non-controlling interests) were \$178.6 million and \$205.3 million, respectively.

The Company periodically repurchases Affiliate equity interests from and issues Affiliate equity interests to its Affiliate partners, its employees and its officers. For the six months ended June 30, 2017 and 2018, the amount of cash paid for repurchases was \$85.1 million and \$57.1 million, respectively. For the six months ended June 30, 2017 and 2018, the total amount of cash received for issuances was \$8.0 million and \$6.2 million, respectively.

Sales and repurchases of Affiliate equity generally occur at fair value; however, the Company also grants Affiliate equity to its Affiliate partners, its employees and its officers as a form of compensation. 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 in Compensation and related expenses in the Consolidated Statements of Income over the requisite service period.

The following table presents Affiliate equity expense:

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## AFFILIATED MANAGERS GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

	For the Three Months Ended June 30, 2017		For the Six Months Ended June 30, 2018	
	2017	2018	2017	2018
Controlling interest	\$3.1	\$2.2	\$7.1	\$4.8
Non-controlling interests	8.8	6.1	21.4	22.9
Total	\$11.9	\$8.3	\$28.5	\$27.7

The following table presents unrecognized Affiliate equity expense:

	Controlling Interest	Remaining Life	Non-controlling Interests	Remaining Life
December 31, 2017	\$ 33.3	5 years	\$ 95.9	6 years
June 30, 2018	40.2	5 years	123.6	6 years

The Company records amounts receivable from and payable to Affiliate equity holders in connection with the transfer of Affiliate equity interests that have not settled at the end of the period. The total receivable was \$12.4 million and \$15.9 million at December 31, 2017 and June 30, 2018, respectively, and was included in Investments and other assets. The total payable was \$49.2 million and \$36.9 million as of December 31, 2017 and June 30, 2018, respectively, and was included in Other liabilities.

## Effects of Changes in the Company's Ownership in Affiliates

The Company periodically acquires interests from, and transfers interests to, Affiliate equity holders. Because these transactions do not result in a change of control, any gain or loss related to these transactions is recorded to Additional paid-in capital, which increases or decreases the controlling interest's equity. No gain or loss related to these transactions is recognized in the Consolidated Statements of Income or Comprehensive Income.

While the Company presents the current redemption value of Affiliate equity within Redeemable non-controlling interests, with changes in the current redemption value increasing or decreasing the controlling interest's equity over time, the following table presents the cumulative effect that ownership changes had on the controlling interest's equity related only to Affiliate equity transactions that settled during the applicable periods:

	For the Three Months Ended June 30, 2017		For the Six Months Ended June 30, 2018	
	2017	2018	2017	2018
Net income (controlling interest)	\$126.3	\$117.0	\$248.8	\$270.0
Increase / (decrease) in controlling interest paid-in capital from Affiliate equity issuances	0.9	(2.3 )	(0.3 )	(3.3 )
Increase / (decrease) in controlling interest paid-in capital from Affiliate equity repurchases	(16.5 )	1.0	(69.1 )	(32.1 )
Net income (controlling interest) including net impact of Affiliate equity transactions	\$110.7	\$115.7	\$179.4	\$234.6

## 14. Income Taxes

On December 22, 2017, changes in U.S. tax laws were enacted which significantly revised U.S. corporate income tax by, among other things, lowering the corporate income tax rate, implementing a modified territorial tax system, and imposing a one-time transition tax on deemed repatriated foreign earnings and profits.



In 2017, the Company recorded a provisional one-time net benefit of \$194.1 million as a reasonable estimate of the impact of the changes in U.S. tax laws. For the six months ended June 30, 2018, the Company did not record any significant changes to its provisional amount. The impact of the changes in U.S. tax laws may be refined as further guidance, interpretations or information becomes available, upon completion by the Company of its evaluation of the impact of the changes in U.S. tax laws or upon the Company's election of a policy with respect to the deferred tax effects of the Global Intangible Low Tax Income provisions of U.S. tax laws. The Company will finalize its accounting for the impact of changes in the U.S. tax laws no later than the fourth quarter of 2018.

## AFFILIATED MANAGERS GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

The Company's consolidated income tax provision includes taxes attributable to the controlling interest and, to a lesser extent, taxes attributable to the non-controlling interests.

The following table presents the consolidated provision for income taxes:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2018	2017	2018
Controlling interest:				
Current tax	\$40.0	\$26.2	\$62.4	\$73.5
Intangible-related deferred taxes	19.1	4.7	38.9	17.9
Other deferred taxes	1.6	0.7	17.2	1.0
Total controlling interest	60.7	31.6	118.5	92.4
Non-controlling interests:				
Current tax	\$1.9	\$2.5	\$3.8	\$5.3
Deferred taxes	(0.1 )	0.0	(0.1 )	(0.2 )
Total non-controlling interests	1.8	2.5	3.7	5.1
Provision for income taxes	\$62.5	\$34.1	\$122.2	\$97.5
Income before income taxes (controlling interest)	\$187.0	\$148.6	\$367.3	\$362.4
Effective tax rate (controlling interest) <sup>(1)</sup>	32.5 %	21.3 %	32.3 %	25.5 %

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

## 15. Earnings Per Share

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2018	2017	2018
Numerator				
Net income (controlling interest)	\$126.3	\$117.0	\$248.8	\$270.0
Interest expense on convertible securities, net of taxes	3.9	—	7.8	9.5
Net income (controlling interest), as adjusted	\$130.2	\$117.0	\$256.6	\$279.5
Denominator				
Average shares outstanding (basic)	56.3	54.0	56.5	54.3
Effect of dilutive instruments:				
Stock options and restricted stock units	0.2	0.2	0.3	0.3
Convertible securities	2.2	—	2.2	2.2
Average shares outstanding (diluted)	58.7	54.2	59.0	56.8

Average shares outstanding (diluted) in the table above excludes share-based awards that have not satisfied performance conditions and the anti-dilutive effect of the following share-based awards:

## AFFILIATED MANAGERS GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

	For the Three Months Ended June 30, 2017		For the Six Months Ended June 30, 2018	
Stock options and restricted stock units	0.2	0.2	0.2	0.2
Convertible securities	—	2.2	—	—

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 purchases in cash, the calculation of Average shares outstanding (diluted) excludes any potential dilutive effect from possible share settlements of Affiliate equity purchases.

In the three and six months ended June 30, 2018, the Company repurchased 0.9 million and 1.7 million shares, respectively, of its common stock at an average price per share of \$159.99 and \$174.87, respectively.

## 16. Comprehensive Income

The following tables present the tax effects allocated to each component of Other comprehensive income (loss):

	For the Three Months Ended June 30,				
	2017		2018		
	Tax	Net	Tax	Net	
	Pre-Tax	Benefit	Pre-Tax	Benefit	
	(Expense)	of	(Expense)	of	
	Tax	Tax	Tax	Tax	
Foreign currency translation adjustment	\$26.9	\$	—\$26.9	\$(20.2)	\$