

AFFILIATED MANAGERS GROUP, INC.

Form 10-Q

November 06, 2014

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SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 10-Q  
(Mark One)

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

For the quarterly period ended September 30, 2014

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  
of incorporation or organization)

(IRS Employer Identification Number)

600 Hale Street, P.O. Box 1000, Prides Crossing, Massachusetts 01965

(Address of principal executive offices)

(617) 747-3300

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

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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 55,572,618 shares of the registrant's common stock outstanding on November 3, 2014.

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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		For the Nine Months	
	Ended September 30,		Ended September 30,	
	2013	2014	2013	2014
Revenue	\$551.6	\$640.3	\$1,594.8	\$1,869.7
Operating expenses:				
Compensation and related expenses	229.8	258.1	679.7	766.5
Selling, general and administrative	106.4	114.4	298.2	359.5
Intangible amortization and impairments	32.7	28.7	98.1	84.2
Depreciation and other amortization	3.4	4.5	10.3	12.3
Other operating expenses	10.2	10.4	27.5	30.6
	382.5	416.1	1,113.8	1,253.1
Operating income	169.1	224.2	481.0	616.6
Income from equity method investments	34.1	50.1	121.0	152.6
Other non-operating (income) and expenses:				
Investment and other income	(8.0 )	(2.6 )	(20.0 )	(19.2 )
Interest expense	19.9	19.0	68.5	56.7
Imputed interest expense and contingent payment arrangements	3.9	2.8	26.5	27.6
	15.8	19.2	75.0	65.1
Income before income taxes	187.4	255.1	527.0	704.1
Income taxes	31.0	64.1	106.6	174.7
Net income	156.4	191.0	420.4	529.4
Net income (non-controlling interests)	(81.2 )	(86.7 )	(218.1 )	(247.9 )
Net income (controlling interest)	\$75.2	\$104.3	\$202.3	\$281.5
Average shares outstanding—basic	53.2	55.6	53.0	54.9
Average shares outstanding—diluted	56.9	58.8	54.7	56.1
Earnings per share—basic	\$1.41	\$1.88	\$3.82	\$5.13
Earnings per share—diluted	1.37	1.84	3.70	5.01

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,	
	2013	2014	2013	2014
Net income	\$156.4	\$191.0	\$420.4	\$529.4
Other comprehensive income (loss):				
Foreign currency translation adjustment	18.1	(34.2 )	(14.4 )	(22.6 )
Change in net realized and unrealized gain on derivative securities, net of tax	—	0.3	0.8	0.6
Change in net unrealized gain (loss) on investment securities, net of tax	6.3	4.1	(3.9 )	(4.6 )
Other comprehensive income (loss)	24.4	(29.8 )	(17.5 )	(26.6 )
Comprehensive income	180.8	161.2	402.9	502.8
Comprehensive income (non-controlling interests)	(80.8 )	(77.4 )	(216.3 )	(242.5 )
Comprehensive income (controlling interest)	\$100.0	\$83.8	\$186.6	\$260.3

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

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

	December 31, 2013	September 30, 2014
Assets		
Cash and cash equivalents	\$ 469.6	\$ 560.2
Receivables	418.4	524.9
Investments in marketable securities	157.9	158.1
Other investments	164.3	171.2
Fixed assets, net	92.3	93.9
Goodwill	2,341.7	2,474.6
Acquired client relationships, net	1,460.7	1,566.6
Equity method investments in Affiliates	1,123.3	1,257.4
Other assets	90.6	77.3
Total assets	\$ 6,318.8	\$ 6,884.2
Liabilities and Equity		
Payables and accrued liabilities	\$ 514.7	\$ 735.3
Senior bank debt	525.0	250.0
Senior notes	340.0	736.7
Convertible securities	518.7	302.6
Deferred income taxes	456.9	440.6
Other liabilities	177.0	201.4
Total liabilities	2,532.3	2,666.6
Redeemable non-controlling interests		
	641.9	703.7
Equity:		
Common stock	0.5	0.6
Additional paid-in capital	479.9	631.3
Accumulated other comprehensive income	74.0	52.8
Retained earnings	1,711.2	1,992.7
	2,265.6	2,677.4
Less: treasury stock, at cost	(131.4	) (81.8
Total stockholders' equity	2,134.2	2,595.6
Non-controlling interests	1,010.4	918.3
Total equity	3,144.6	3,513.9
Total liabilities and equity	\$ 6,318.8	\$ 6,884.2

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						
	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock at Cost	Non-controlling interests	Total Equity
December 31, 2012	\$0.5	\$868.5	\$79.1	\$1,350.7	\$(214.6 )	\$957.2	\$3,041.4
Net income	—	—	—	202.3	—	218.1	420.4
Share-based compensation	—	17.3	—	—	—	—	17.3
Common stock issued under share-based incentive plans	—	(52.5 )	—	—	97.7	—	45.2
Tax benefit from share-based incentive plans	—	17.9	—	—	—	—	17.9
Settlement of senior convertible securities	—	(130.7 )	—	—	—	—	(130.7 )
Forward equity	—	(22.5 )	—	—	—	—	(22.5 )
Affiliate equity activity	—	(150.0 )	—	—	—	15.4	(134.6 )
Share repurchases	—	—	—	—	(15.7 )	—	(15.7 )
Distributions to non-controlling interests	—	—	—	—	—	(218.6 )	(218.6 )
Other comprehensive loss	—	—	(15.7 )	—	—	(1.8 )	(17.5 )
September 30, 2013	\$0.5	\$548.0	\$63.4	\$1,553.0	\$(132.6 )	\$970.3	\$3,002.6
	Total Stockholders' Equity						
	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	\$0.5	\$479.9	\$74.0	\$1,711.2	\$(131.4 )	\$1,010.4	\$3,144.6
Net income	—	—	—	281.5	—	247.9	529.4
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	—	58.9	—	—	—	—	58.9

incentive plans							
Settlement of convertible securities	0.1	276.4	—	—	—	—	276.5
Forward equity Investments in Affiliates	—	(45.0)	) —	—	—	—	(45.0)
Affiliate equity activity	—	—	—	—	—	117.1	117.1
Share repurchases	—	(50.9)	) —	—	—	16.6	(34.3)
Distributions to non-controlling interests	—	—	—	—	(51.7)	) —	(51.7)
Other comprehensive income (loss)	—	—	(21.2)	) —	—	(5.4)	(26.6)
September 30, 2014	\$0.6	\$631.3	\$52.8	\$1,992.7	\$(81.8)	) \$918.3	\$3,513.9

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 Nine Months Ended September 30,	
	2013	2014
Cash flow from operating activities:		
Net income	\$420.4	\$529.4
Adjustments to reconcile Net income to net Cash flow from operating activities:		
Intangible amortization and impairments	98.1	84.2
Depreciation and other amortization	10.3	12.3
Deferred income tax provision	24.0	49.6
Imputed interest expense and contingent payment arrangements	26.5	27.6
Income from equity method investments, net of amortization	(121.0 )	(152.6 )
Distributions received from equity method investments	187.2	315.4
Share-based compensation and Affiliate equity expense	37.6	82.2
Other non-cash items	15.4	4.8
Changes in assets and liabilities:		
Increase in receivables	(125.4 )	(95.1 )
Increase in other assets	(13.9 )	(6.8 )
Increase in payables, accrued liabilities and other liabilities	188.4	179.4
Cash flow from operating activities	747.6	1,030.4
Cash flow from (used in) investing activities:		
Investments in Affiliates	(26.3 )	(534.4 )
Purchase of fixed assets	(15.9 )	(13.7 )
Purchase of investment securities	(6.3 )	(16.8 )
Sale of investment securities	4.7	13.9
Cash flow used in investing activities	(43.8 )	(551.0 )
Cash flow from (used in) financing activities:		
Borrowings of senior debt	595.0	1,016.5
Repayments of senior debt and convertible securities	(986.3 )	(895.6 )
Issuance of common stock	47.7	37.9
Repurchase of common stock	(15.7 )	(51.7 )
Note and contingent payments	(36.7 )	12.1
Distributions to non-controlling interests	(218.6 )	(468.3 )
Affiliate equity issuances and repurchases	(6.7 )	(44.8 )
Excess tax benefit from share-based compensation	17.1	58.6
Settlement of forward equity sale agreement	—	(45.0 )
Other financing items	(7.4 )	(5.2 )
Cash flow used in financing activities	(611.6 )	(385.5 )
Effect of foreign exchange rate changes on cash and cash equivalents	(0.2 )	(3.3 )
Net decrease in cash and cash equivalents	92.0	90.6
Cash and cash equivalents at beginning of period	430.4	469.6
Cash and cash equivalents at end of period	\$522.4	\$560.2
Supplemental disclosure of non-cash financing activities:		
Settlement of 2006 junior convertible securities	\$—	\$217.8
Stock issued under other incentive plans	(1.1 )	(63.6 )



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Stock received in settlement of liability	0.4	44.7
Payables recorded for Affiliate equity repurchases	30.5	20.5
Payables recorded for forward equity sale settlements	22.5	—

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

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AFFILIATED MANAGERS GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 1. Basis of Presentation

The consolidated financial statements of Affiliated Managers Group, Inc. ("AMG" or the "Company") have been prepared in accordance with accounting principles generally accepted in the United States of America ("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, 2013 includes additional information about AMG, its operations, financial position and accounting policies, and should be read in conjunction with this Quarterly Report on Form 10-Q.

All 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 April 2014, the Financial Accounting Standards Board issued an update to the guidance for discontinued operations accounting and reporting. The new guidance amends the definition of discontinued operations and requires entities to provide additional disclosures regarding disposal transactions that do not meet the discontinued operations criteria. The new guidance is effective for interim and fiscal periods beginning after December 15, 2014. The Company is evaluating the impact of this guidance and does not expect it to have a significant impact on the Consolidated Financial Statements.

In May 2014, the Financial Accounting Standards Board issued a final standard on revenue from contracts with customers. The new standard provides a comprehensive model for revenue recognition. The new guidance is effective for interim and fiscal periods beginning after December 15, 2016. The Company is evaluating the impact of this guidance.

### 3. Investments in Marketable Securities

Investments in marketable securities at December 31, 2013 and September 30, 2014 were \$157.9 million and \$158.1 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, 2013 and September 30, 2014:

	Available-for-Sale		Trading	
	December 31, 2013	September 30, 2014	December 31, 2013	September 30, 2014
Cost	\$103.2	\$114.7	\$17.9	\$18.5
Unrealized Gains	33.3	28.0	4.6	3.6
Unrealized Losses	(1.1	) (6.7	) (0.0	) (0.0
Fair Value	\$135.4	\$136.0	\$22.5	\$22.1

There were no realized gains or losses on investments classified as available-for-sale for the three months ended September 30, 2013 and \$2.1 million of realized gains for the nine months ended September 30, 2013. For each of the three and nine months ended September 30, 2014, there was \$1.8 million of realized gains on investments classified as available-for-sale.

### 4. Variable Interest Entities

The Company's Affiliates act as the investment manager for certain investment funds that are considered variable interest entities ("VIEs"). 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, 2013 and September 30, 2014. The Affiliates do not have any investment performance guarantees to these VIEs.

The Affiliates are not the primary beneficiary of any of these VIEs as their involvement is limited to that of a service provider and their investment, if any, represents an insignificant interest in the fund's assets under management. Since the

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Affiliates' variable interests will not absorb the majority of the variability of the entity'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:

Category of Investment	December 31, 2013		September 30, 2014	
	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	\$8,112.7	\$1.7	\$8,544.8	\$0.8

#### 5. Debt

##### Senior Bank Debt

The Company has a \$1.25 billion senior unsecured revolving credit facility (the "credit facility") which matures in April 2018. As of September 30, 2014, there were no outstanding borrowings.

On April 15, 2014, the Company entered into a \$250.0 million five-year senior unsecured term loan. The Company pays interest at specified rates (based on either the LIBOR rate or the prime rate as in effect from time to time).

Subject to certain conditions, the Company may borrow up to an additional \$100.0 million.

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

##### Senior Notes

On February 11, 2014, the Company sold \$400.0 million aggregate principal amount of 4.25% senior notes due 2024 (the "2024 senior notes"). The unsecured 2024 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 underlying indenture limits the Company's ability to consolidate, merge or sell all or substantially all of its assets, and to create certain liens.

##### Convertible Securities

On February 13, 2014, the Company delivered a notice to redeem all of its outstanding 2006 junior convertible securities. In lieu of redemption, substantially all holders of the 2006 junior convertible securities elected to convert their securities into a defined number of shares. The Company issued 1.9 million shares of its common stock and recognized an expense of \$18.8 million in the three months ended March 31, 2014, which is included in Imputed interest expense and contingent payment arrangements. All of the Company's 2006 junior convertible securities have been canceled and retired.

#### 6. Forward Equity

Under a forward equity agreement, the Company may sell shares of common stock up to an aggregate notional amount of \$400.0 million. During 2012, the Company entered into contracts to sell a notional amount of \$147.2 million at an average share price of \$121.37. During 2013, the Company net settled \$77.0 million notional amount of forward equity contracts at an average share price of \$185.56. During the first half of 2014, the Company net settled \$70.2 million notional amount of forward equity contracts at an average share price of \$198.71. The Company has \$252.8 million remaining notional amount that it may elect to sell under the forward equity agreement.

#### 7. Commitments and Contingencies

The Company has committed to co-invest in certain investment partnerships. As of September 30, 2014, these unfunded commitments were \$70.6 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 \$23.8 million of these commitments if they are called.

Under past acquisition agreements, the Company is contingently liable, upon achievement by Affiliates of specified financial targets, to make payments of up to \$524.1 million through 2017, including payments of up to \$201.0 million related to the Company's equity method investments. As of September 30, 2014, the Company expects to make payments of \$75.0

million (none in 2014) to settle obligations related to consolidated Affiliates. The net present value of the expected payments for consolidated Affiliates totals \$57.0 million as of September 30, 2014.

#### 8. Fair Value Measurements

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

	Fair Value Measurements			
	December 31, 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
<b>Financial Assets</b>				
Cash equivalents	\$ 39.0	\$39.0	\$—	\$ —
Investments in marketable securities <sup>(1)</sup>				
Trading securities	22.5	22.5	—	—
Available-for-sale securities	135.4	135.4	—	—
Other investments	164.3	14.1	18.4	131.8
<b>Financial Liabilities</b>				
Contingent payment arrangements <sup>(2)</sup>	\$ 50.2	\$—	\$—	\$ 50.2
Obligations to related parties <sup>(2)</sup>	76.9	—	—	76.9
Interest rate swaps <sup>(3)</sup>	2.5	—	2.5	—
	Fair Value Measurements			
	September 30, 2014	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
<b>Financial Assets</b>				
Cash equivalents	\$ 32.4	\$32.4	\$—	\$ —
Investments in marketable securities <sup>(1)</sup>				
Trading securities	22.1	22.1	—	—
Available-for-sale securities	136.0	136.0	—	—
Other investments	171.1	20.3	13.1	137.7
<b>Financial Liabilities</b>				
Contingent payment arrangements <sup>(2)</sup>	\$ 57.0	\$—	\$—	\$ 57.0
Obligations to related parties <sup>(2)</sup>	92.7	—	—	92.7
Interest rate swaps <sup>(3)</sup>	1.6	—	1.6	—

(1) Principally investments in equity securities.

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

(3) The fair value of the Company's interest rate swaps is presented within Other liabilities in the accompanying Consolidated Balance Sheets. As of December 31, 2013 and September 30, 2014, the Company had posted collateral with its counterparties of \$3.6 million and \$3.0 million, respectively. Gains (losses) on these interest rate swaps for the three and nine months ended September 30, 2013 were \$(0.0) million and \$1.3 million, respectively, and \$0.5 million and \$0.9 million, respectively, for the three and

nine months ended September 30, 2014. These gains have been reported in the Consolidated Statements of Comprehensive Income.

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

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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 which 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 which 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.

Interest rate swaps use model-derived valuations in which all significant inputs are observable in active markets to determine the fair value of these derivatives.

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 nine months ended September 30, 2013 and 2014, respectively.

#### Level 3 Financial Assets and Liabilities

The following table presents the changes in Level 3 assets and liabilities for the three and nine months ended September 30, 2013 and 2014:

	For the Three Months Ended September 30, 2013			2014			
	Other Investments	Contingent Payment Arrangements	Obligations to Related Parties	Other Investments	Contingent Payment Arrangements	Obligations to Related Parties	
Balance, beginning of period	\$ 124.4	\$ 44.3	\$ 96.6	\$ 139.5	\$ 55.1	\$ 98.4	
Net gains/losses	4.2	(1) 1.8	(2) 1.0	(3) 2.7	(1) 1.9	(2) 1.3	(3)
Purchases and issuances	2.2	—	23.1	3.7	—	11.1	
Settlements and reductions	(4.5 )	—	(22.0 )	(8.2 )	—	(18.1 )	
Net transfers in and/or out of Level 3	—	—	—	—	—	—	
Balance, end of period	\$ 126.3	\$ 46.1	\$ 98.7	\$ 137.7	\$ 57.0	\$ 92.7	
Net unrealized gains/losses relating to instruments still held at the reporting date	\$ 4.7	\$ 1.8	\$ (0.1 )	\$ 4.4	\$ 1.9	\$ 0.2	





	For the Nine Months Ended September 30, 2013			2014			
	Other Investments	Contingent Payment Arrangements	Obligations to Related Parties	Other Investments	Contingent Payment Arrangements	Obligations to Related Parties	
Balance, beginning of period	\$118.9	\$31.0	\$77.8	\$131.8	\$50.2	\$76.9	
Net gains/losses	9.2	(1) 15.1	(2) 3.2	(3) 13.7	(1) 6.8	(2) 5.8	(3)
Purchases and issuances	9.9	—	55.1	10.5	—	72.1	
Settlements and reductions	(11.7 )	—	(37.4 )	(18.3 )	—	(62.1 )	
Net transfers in and/or out of Level 3	—	—	—	—	—	—	
Balance, end of period	\$126.3	\$46.1	\$98.7	\$137.7	\$57.0	\$92.7	
Net unrealized gains/losses relating to instruments still held at the reporting date	\$11.1	\$15.1	\$0.1	\$17.1	\$6.8	\$2.2	

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

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

Gains and losses associated with agreements to repurchase Affiliate equity are recorded in Imputed interest (3) 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, 2013	Range at December 31, 2013	Fair Value at September 30, 2014	Range at September 30, 2014
Contingent payment arrangements	Discounted cash flow	Growth rates	\$50.2	3% – 11%	\$57.0	1% – 9%
		Discount rates		14% – 18%		12% – 17%
Affiliate equity repurchase obligations	Discounted cash flow	Growth rates	4.0	8%	20.5	3% – 10%
		Discount rates		15%		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, 2013 and September 30, 2014, the nature of these investments and any related liquidity restrictions or other factors which may impact the ultimate value realized:

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Category of Investment	December 31, 2013		September 30, 2014	
	Fair Value	Unfunded Commitments	Fair Value	Unfunded Commitments
Private equity fund-of-funds <sup>(1)</sup>	\$131.8	\$62.9	\$137.7	\$70.6
Other funds <sup>(2)</sup>	82.3	—	81.0	—
	\$214.1	\$62.9	\$218.7	\$70.6

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- (1) These funds primarily invest in a broad range of private equity funds, as well as making direct investments. Distributions will be received as the underlying assets are liquidated over the life of the funds.
- (2) These are multi-disciplinary funds that invest across various asset classes and strategies, including long/short equity, credit and real estate. Investments are generally redeemable on a daily or quarterly basis.

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

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

The carrying amount of cash, 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, 2013		September 30, 2014		Fair Value Hierarchy
	Carrying Value	Fair Value	Carrying Value	Fair Value	
Senior notes	\$340.0	\$325.0	\$736.7	\$764.0	Level 2
Convertible securities	518.7	963.9	302.6	533.1	Level 2

#### 9. Business Combinations

On March 31, 2014, the Company completed its majority investment in SouthernSun Asset Management, LLC ("SouthernSun"). The Company's purchase price allocation for SouthernSun is provisional and was performed using a financial model that includes assumptions of expected market performance, net client cash flows and discount rates. These provisional amounts may be revised upon completion of the final valuation. The excess of the enterprise value over the net assets acquired was recorded as goodwill, of which 37%, 23% and 40% was attributed to the Company's Institutional, Mutual Fund and High Net Worth segments, respectively. The consideration paid (less net tangible assets acquired) will be deductible for U.S. tax purposes over a 15-year life.

On June 30, 2014, the Company completed its majority investment in River Road Asset Management, LLC ("River Road"). The Company's purchase price allocation for River Road is provisional and was performed using a financial model that includes assumptions of expected market performance, net client cash flows and discount rates. These provisional amounts may be revised upon completion of the final valuation. The excess of the enterprise value over the net assets acquired was recorded as goodwill, of which 31%, 51% and 18% was attributed to the Company's Institutional, Mutual Fund and High Net Worth segments, respectively. The consideration paid (less net tangible assets acquired) will be deductible for U.S. tax purposes over a 15-year life.

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

Consideration paid	Total
Non-controlling interests	\$240.3
Enterprise value	117.1
	\$357.4
Acquired client relationships	\$196.4
Tangible assets, net	10.8
Goodwill	150.2
	\$357.4

Pro forma financial results are set forth below assuming these investments occurred on January 1, 2013, the revenue sharing arrangement had been in effect for the entire period and after making certain pro forma adjustments.

	For the Nine Months Ended September 30,	
	2013	2014
Revenue	\$1,635.9	\$1,896.2
Net income (controlling interest)	207.3	286.8
Earnings per share—basic	3.91	5.22
Earnings per share—diluted	3.79	5.11

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

The Company's investments in SouthernSun and River Road contributed \$32.6 million and \$4.2 million to revenue and earnings, respectively, during the nine months ended September 30, 2014.

On October 31, 2014, the Company completed its majority investment in a new Affiliate for a total purchase price of \$323.7 million. This transaction was financed with available cash and \$145.0 million of borrowings under the Company's credit facility.

#### 10. 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, 2014:

	Goodwill			
	Institutional	Mutual Fund	High Net Worth	Total
Balance, as of December 31, 2013	\$1,076.3	\$928.1	\$337.3	\$2,341.7
Goodwill acquired	49.7	61.0	39.5	150.2
Foreign currency translation	(8.8	) (3.2	) (5.3	) (17.3
Balance, as of September 30, 2014	\$1,117.2	\$985.9	\$371.5	\$2,474.6

##### 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, 2013	\$1,039.5	\$(442.8	) \$596.7	\$864.0	\$1,460.7
New Investments	149.6	—	149.6	46.8	196.4
Intangible amortization and impairments	—	(84.2	) (84.2	) —	(84.2
Foreign currency translation	(1.3	) —	(1.3	) (5.0	) (6.3
Balance, as of September 30, 2014	\$1,187.8	\$(527.0	) \$660.8	\$905.8	\$1,566.6

Definite-lived acquired client relationships are amortized over their expected useful lives. As of September 30, 2014, these relationships were being amortized over a weighted average life of approximately ten years. The Company recognized amortization expenses for these relationships of \$32.7 million and \$98.1 million, respectively, for the three and nine months ended September 30, 2013 as compared to \$28.7 million and \$84.2 million, respectively, for the three and nine months ended September 30, 2014. Based on relationships existing as of September 30, 2014, the Company estimates that its consolidated annual amortization expense will be approximately \$120.0 million for each of the next five years.

The Company performed its annual goodwill impairment assessment as of September 30, 2014 and no impairments were identified.

##### Equity Method Investments in Affiliates

On April 1, 2014, the Company completed its investment in EIG Global Energy Partners, LLC. The Company's purchase price allocation is provisional and \$115.0 million has been allocated to acquired client relationships. The Company's purchase



price allocation was measured using a financial model that includes assumptions of expected market performance, net client flows and discount rates. This provisional amount may be revised upon completion of the final valuation. The consideration paid (less net tangible assets acquired) will be deductible for U.S. tax purposes over a 15-year life. The intangible assets at the Company's equity method Affiliates consist of definite-lived acquired client relationships and goodwill. Definite-lived acquired client relationships are amortized over their expected useful lives. As of September 30, 2014, these relationships were being amortized over a weighted average life of approximately twelve years. The Company recognized amortization expense for these relationships of \$10.4 million and \$31.1 million, respectively, for the three and nine months ended September 30, 2013 as compared to \$7.3 million and \$20.0 million, respectively, for the three and nine months ended September 30, 2014. Based on relationships existing as of September 30, 2014, the Company estimates the annual amortization expense for the next five years will be approximately \$26.4 million in 2014, \$20.2 million in 2015 and \$17.6 million in each of 2016, 2017 and 2018. With the exception of the aforementioned investment, there were no significant changes to goodwill during the nine months ended September 30, 2014.

#### 11. 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,	
	2013	2014	2013	2014
Share-based compensation	\$5.9	\$7.0	\$17.3	\$22.2
Tax benefit	2.3	2.7	6.7	8.5

There was \$79.3 million and \$64.3 million of unrecognized share-based compensation as of December 31, 2013 and September 30, 2014, 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, 2013	3.0	\$77.71	
Options granted	0.0	204.99	
Options exercised	(0.6 )	59.89	
Options forfeited	(0.1 )	81.50	
Unexercised options outstanding—September 30, 2014	2.3	83.06	3.0
Exercisable at September 30, 2014	1.8	78.65	2.7

#### 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, 2013	0.5	\$176.38
Units granted	0.0	190.42
Units vested	(0.1 )	132.88
Units forfeited	(0.0 )	173.77
Unvested units—September 30, 2014	0.4	183.08

#### 12. Affiliate Equity



A summary of Affiliate equity expense is as follows:

	For the Three Months Ended		For the Nine Months Ended	
	September 30,		September 30,	
	2013	2014	2013	2014
Affiliate equity expense	\$7.9	\$14.1	\$31.6	\$60.0
Tax benefit	2.2	2.4	7.8	9.6

Affiliate equity expense attributable to the non-controlling interests was \$2.2 million and \$11.3 million, respectively, in the three and nine months ended September 30, 2013 as compared to \$7.9 million and \$35.1 million, respectively, in the three and nine months ended September 30, 2014. As of December 31, 2013 and September 30, 2014, the Company had \$68.2 million and \$76.1 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, \$32.1 million and \$43.2 million is 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, 2013	\$ 641.9
Transactions in Redeemable non-controlling interests	(39.6 )
Changes in redemption value	101.4
Balance, as of September 30, 2014	\$ 703.7

During the three and nine months ended September 30, 2013 and 2014, the Company acquired interests from, and transferred interests to, Affiliate management partners. The following schedule discloses the effect of changes in the Company's ownership interest in its Affiliates on the controlling interest's equity:

	For the Three		For the Nine	
	Months Ended		Months Ended	
	September 30,		September 30,	
	2013	2014	2013	2014
Net income (controlling interest)	\$75.2	\$104.3	\$202.3	\$281.5
Increase (decrease) in controlling interest paid-in capital from purchases and sales of Affiliate equity	0.9	(3.6 )	(23.1 )	(17.1 )
Change from Net income (controlling interest) and net transfers with non-controlling interests	\$76.1	\$100.7	\$179.2	\$264.4

### 13. 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:



	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2013	2014	September 30, 2013	2014
Controlling Interests:				
Current tax	\$32.7	\$41.7	\$73.6	\$114.3
Intangible-related deferred taxes	5.2	19.6	29.4	55.5
Other deferred taxes	(6.3 )	(0.7 )	(1.4 )	(5.3 )
Total controlling interests	31.6	60.6	101.6	164.5
Non-controlling Interests:				
Current tax	\$3.1	\$3.7	\$9.0	\$10.8
Deferred taxes	(3.7 )	(0.2 )	(4.0 )	(0.6 )
Total non-controlling interests	(0.6 )	3.5	5.0	10.2
Provision for income taxes	\$31.0	\$64.1	\$106.6	\$174.7
Income before income taxes (controlling interest)	\$106.8	\$164.8	\$303.9	\$446.0
Effective tax rate attributable to controlling interests <sup>(1)</sup>	29.6	% 36.8	% 33.4	% 36.9

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

During the three and nine months ended September 30, 2013, the Company recognized a deferred tax benefit of \$11.1 million (\$7.5 million attributable to the controlling interest) from the revaluation of its deferred taxes as a result of a reduction of corporate tax rates in the United Kingdom.

For the nine months ended September 30, 2014, deferred tax liabilities decreased by \$16.3 million primarily as a result of the reclassification of \$54.5 million of deferred tax liabilities to equity related to the settlement of the 2006 junior convertible securities, offset by the Company's deferred tax provision, \$49.6 million (comprised principally of intangible-related deferred taxes).

As of September 30, 2014, the Company carried a liability for uncertain tax positions of \$19.4 million, including \$1.7 million for interest and related charges. At September 30, 2014, this liability also included \$16.8 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.

#### 14. Earnings Per Share

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

	For the Three Months Ended September 30, 2013		For the Nine Months Ended September 30, 2014	
Numerator				
Net income (controlling interest)	\$75.2	\$104.3	\$202.3	\$281.5
Convertible securities interest expense, net	2.6	3.8	—	—
Net income (controlling interest), as adjusted	\$77.8	\$108.1	\$202.3	\$281.5
Denominator				
Average shares outstanding—basic	53.2	55.6	53.0	54.9
Effect of dilutive instruments:				
Contingently convertible securities	2.0	2.1	—	—
Stock options and restricted stock	1.3	1.1	1.4	1.1
Forward equity	0.4	—	0.3	0.1
Average shares outstanding—diluted	56.9	58.8	54.7	56.1

For the three months ended September 30, 2014, the Company repurchased approximately 0.3 million shares of common stock at an average price per share of \$206.81 under the share repurchase programs approved by the Company's Board of Directors.

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

	For the Three Months Ended September 30, 2013		For the Nine Months Ended September 30, 2014	
Stock options and restricted stock	0.0	0.2	0.0	0.2
Senior convertible securities	1.3	—	2.9	—
Junior convertible securities	2.2	—	4.2	2.6

#### 15. Comprehensive Income

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

	For the Three Months Ended September 30,					
	2013			2014		
	Pre-Tax	Tax Benefit (Expense)	Net of Tax	Pre-Tax	Tax Benefit (Expense)	Net of Tax
Foreign currency translation adjustment	\$18.1	\$—	\$18.1	\$(34.2 )	\$—	\$(34.2 )
Change in net realized and unrealized gain (loss) on derivative securities	—	—	—	0.4	(0.1 )	0.3
Change in net unrealized gain (loss) on investment securities	10.2	(3.9 )	6.3	6.7	(2.6 )	4.1
Other comprehensive income (loss)	\$28.3	\$(3.9 )	\$24.4	\$(27.1 )	\$(2.7 )	\$(29.8 )

	For the Nine Months Ended September 30,					
	2013			2014		
	Pre-Tax	Tax Benefit (Expense)	Net of Tax	Pre-Tax	Tax Benefit (Expense)	Net of Tax
Foreign currency translation adjustment	\$(14.4 )	\$—	\$(14.4 )	\$(22.6 )	\$—	\$(22.6 )
Change in net realized and unrealized gain (loss) on derivative securities	1.3	(0.5 )	0.8	0.9	(0.3 )	0.6
Change in net unrealized gain (loss) on investment securities	(5.6 )	1.7	(3.9 )	(7.2 )	2.6	(4.6 )
Other comprehensive income (loss)	\$(18.7 )	\$1.2	\$(17.5 )	\$(28.9 )	\$2.3	\$(26.6 )

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

	Foreign Currency Translation Adjustment	Realized and Unrealized Losses on Derivative Securities	Unrealized Gain (Loss) on Investment Securities	Total
Balance, as of December 31, 2013	\$56.6	\$(1.9 )	\$19.5	\$74.2
Other comprehensive income (loss) before reclassifications	(22.6 )	0.6	(6.6 )	(28.6 )
Amounts reclassified from other comprehensive income	—	0.0	2.0	2.0
Net other comprehensive income (loss)	(22.6 )	0.6	(4.6 )	(26.6 )
Balance, as of September 30, 2014	\$34.0	\$(1.3 )	\$14.9	\$47.6

#### 16. Segment Information

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

## Statements of Income

For the Three Months Ended September 30, 2013

	Institutional	Mutual Fund	High Net Worth	Total
Revenue	\$229.1	\$268.0	\$54.5	\$551.6
Operating expenses:				
Depreciation, intangible amortization and impairments	17.6	15.6	2.9	36.1
Other operating expenses	140.3	174.7	31.4	346.4
	157.9	190.3	34.3	382.5
Operating income	71.2	77.7	20.2	169.1
Income from equity method investments	27.7	4.0	2.4	34.1
Other non-operating (income) and expenses:				
Investment and other income	(3.9)	(3.8)	(0.3)	(8.0)
Interest expense	10.6	7.3	2.0	19.9
Imputed interest expense and contingent payment arrangements	1.2	2.5	0.2	3.9
	7.9	6.0	1.9	15.8
Income before income taxes	91.0	75.7	20.7	187.4
Income taxes	17.9	8.8	4.3	31.0
Net income	73.1	66.9	16.4	156.4
Net income (non-controlling interests)	(33.3)	(39.1)	(8.8)	(81.2)
Net income (controlling interest)	\$39.8	\$27.8	\$7.6	\$75.2

For the Three Months Ended September 30, 2014

	Institutional	Mutual Fund	High Net Worth	Total
Revenue	\$256.1	\$319.6	\$64.6	\$640.3
Operating expenses:				
Depreciation, intangible amortization and impairments	25.3	3.5	4.4	33.2
Other operating expenses	151.0	196.8	35.1	382.9
	176.3	200.3	39.5	416.1
Operating income	79.8	119.3	25.1	224.2
Income from equity method investments	40.7	5.6	3.8	50.1
Other non-operating (income) and expenses:				
Investment and other income	(1.0)	(1.5)	(0.1)	(2.6)
Interest expense	9.5	7.6	1.9	19.0
Imputed interest expense and contingent payment arrangements	0.4	2.1	0.3	2.8
	8.9	8.2	2.1	19.2
Income before income taxes	111.6	116.7	26.8	255.1
Income taxes	28.2	30.1	5.8	64.1
Net income	83.4	86.6	21.0	191.0
Net income (non-controlling interests)	(37.1)	(38.5)	(11.1)	(86.7)
Net income (controlling interest)	\$46.3	\$48.1	\$9.9	\$104.3

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	For the Nine Months Ended September 30, 2013			
	Institutional	Mutual Fund	High Net Worth	Total
Revenue	\$694.6	\$741.5	\$158.7	\$1,594.8
Operating expenses:				
Depreciation, intangible amortization and impairments	57.1	42.0	9.3	108.4
Other operating expenses	429.8	483.2	92.4	1,005.4
	486.9	525.2	101.7	1,113.8
Operating income	207.7	216.3	57.0	481.0
Income from equity method investments	102.1	11.7	7.2	121.0
Other non-operating (income) and expenses:				
Investment and other income	(9.8 )	(9.2 )	(1.0 )	(20.0 )
Interest expense	38.4	23.5	6.6	68.5
Imputed interest and contingent payment arrangements	8.2	16.7	1.6	26.5
	36.8	31.0	7.2	75.0
Income before income taxes	273.0	197.0	57.0	527.0
Income taxes	60.6	34.6	11.4	106.6
Net income	212.4	162.4	45.6	420.4
Net income (non-controlling interests)	(97.8 )	(95.2 )	(25.1 )	(218.1 )
Net income (controlling interest)	\$114.6	\$67.2	\$20.5	\$202.3

	For the Nine Months Ended September 30, 2014			
	Institutional	Mutual Fund	High Net Worth	Total
Revenue	\$766.2	\$921.5	\$182.0	\$1,869.7
Operating expenses:				
Depreciation, intangible amortization and impairments	72.1	12.3	12.1	96.5
Other operating expenses	470.9	585.8	99.9	1,156.6
	543.0	598.1	112.0	1,253.1
Operating income	223.2	323.4	70.0	616.6
Income from equity method investments	124.6	16.5	11.5	152.6
Other non-operating (income) and expenses:				
Investment and other income	(11.3 )	(7.0 )	(0.9 )	(19.2 )
Interest expense	29.2	21.9	5.6	56.7
Imputed interest and contingent payment arrangements	10.9	14.4	2.3	27.6
	28.8	29.3	7.0	65.1
Income before income taxes	319.0	310.6	74.5	704.1
Income taxes	79.4	79.7	15.6	174.7
Net income	239.6	230.9	58.9	529.4
Net income (non-controlling interests)	(107.8 )	(107.8 )	(32.3 )	(247.9 )
Net income (controlling interest)	\$131.8	\$123.1	\$26.6	\$281.5
Total assets as of December 31, 2013	\$3,196.5	\$2,448.4	\$673.9	\$6,318.8
Total assets as of September 30, 2014	\$3,235.4	\$2,871.4	\$777.4	\$6,884.2

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

### Forward-Looking Statements

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

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

we cannot be certain that we will be successful in investing in additional investment management firms or that existing and new Affiliates will have favorable operating results;

we may need to raise capital by making long-term or short-term borrowings or by selling shares of our common stock or other securities in order to finance investments in additional investment management firms or additional investments in our existing Affiliates, and such financing activities could increase our interest expense, decrease our Net income and/or dilute the interests of our existing stockholders;

our business is subject to substantial government regulation, and changes in legal, regulatory, accounting, tax and compliance requirements may have a significant impact on our operating results; and

those certain other factors discussed under the caption "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2013, and in any other filings we make with the Securities and Exchange Commission from time to time.

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

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

### Executive Overview

We are a global asset management company with equity investments in a diverse group of boutique investment management firms (our "Affiliates"). We pursue a growth strategy designed to generate shareholder value through the internal growth of our existing business, additional investments in boutique investment management firms and strategic transactions and relationships structured to enhance our Affiliates' businesses and growth prospects.

As of September 30, 2014, we manage \$599.5 billion in assets through our Affiliates (approximately \$617 billion including our investment in Veritas Asset Management LLP ("Veritas")) across a broad range of asset classes and investment styles in three principal distribution channels: Institutional, Mutual Fund and High Net Worth. The following summarizes our operations in our three principal distribution channels.

In the Institutional distribution channel, we manage assets for large institutional investors world-wide, including sovereign wealth funds, foundations, endowments, and retirement plans for corporations and municipalities.

In the Mutual Fund distribution channel, we provide advisory or sub-advisory services to mutual funds or other retail-oriented products. These funds are distributed to retail and institutional clients directly and through

intermediaries, including independent investment advisors, retirement plan sponsors, broker-dealers, major fund marketplaces and bank trust departments.

In the High Net Worth distribution channel, we provide advisory services to ultra-high net worth individuals, families and charitable foundations. Direct services to these clients include customized investment counseling, investment management and fiduciary services.

#### Our Structure and Relationship with Affiliates

We establish and maintain long-term partnerships with our Affiliates, believing that Affiliate management equity ownership (along with our ownership) aligns our interests and provides Affiliates with a powerful incentive to continue to grow their business. We partner with the highest quality boutique investment management firms in the industry, with outstanding management teams, strong long-term performance records and a demonstrated commitment to continued growth and success. Our partnership approach ensures that Affiliates maintain operational autonomy in managing their business, thereby preserving their entrepreneurial culture and independence.

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

We generally have contractual arrangements ("revenue sharing arrangements") with our Affiliates. In many cases, a percentage of revenue is allocable to fund operating expenses, including compensation (the "Operating Allocation"), while the remaining revenue (the "Owners' Allocation") is allocable to us and Affiliate management. In other revenue sharing arrangements, we own a minority interest that allocates a percentage of the Affiliate's revenue to us, with the remaining revenue available to the Affiliate to pay operating expenses and profit distributions to the other owners. Under our revenue sharing arrangements, our contractual share of revenue generally has priority over allocations to Affiliate management. Certain of our Affiliates operate under profit-based arrangements through which we receive a share of profits as cash flow, rather than a percentage of revenue through a typical revenue sharing agreement. As a result, we participate fully in any increase or decrease in the revenue or expenses of such firms. From time to time, we may consider changes to the structure of our relationship with an Affiliate in order to better support the firm's growth strategy.

#### New Investments

In the nine months ended September 30, 2014, we completed majority investments in SouthernSun Asset Management, LLC ("SouthernSun") and River Road Asset Management, LLC ("River Road"). Following the close of these transactions, both SouthernSun's and River Road's partners continue to hold a substantial portion of the equity of the business and direct its day-to-day operations.

On April 1, 2014, we completed an equity investment in EIG Global Energy Partners, LLC ("EIG"). Following the close of the transaction, EIG's partners continue to hold a majority of the equity in the business and directs its day-to-day operations.

On October 31, 2014, we completed a majority investment in Veritas. Following the close of the transaction, Veritas' partners continue to hold a substantial portion of the equity of the business and direct its day-to-day operations. Veritas manages both funds and segregated portfolios for institutional and retail investors around the world.

#### Financial Results

For the three and nine months ended September 30, 2014, Net income (controlling interest) was \$104.3 million and \$281.5 million, respectively, compared to \$75.2 million and \$202.3 million for the three and nine months ended September 30, 2013, respectively. For the three and nine months ended September 30, 2014, Earnings per share—diluted was \$1.84 and \$5.01, respectively, representing a 34% and 35% increase over the prior year. For the three and nine months ended September 30, 2013, Earnings per share—diluted was \$1.37 and \$3.70, respectively.

For the three and nine months ended September 30, 2014, Economic net income was \$156.8 million and \$444.4 million, respectively. For the three and nine months ended September 30, 2014, Economic earnings per share was \$2.76 and \$7.90, respectively, representing a 26% and 19% increase over the prior year, and EBITDA was \$218.1 million and \$621.9 million, respectively. For the three and nine months ended September 30, 2013, Economic net



income was \$121.8 million and \$367.2 million, respectively, Economic earnings per share was \$2.19 and \$6.63, respectively, and EBITDA was \$170.4 million and \$518.4 million, respectively. Economic net income (controlling interest), including Economic earnings per share, and EBITDA (controlling interest) are discussed in "Supplemental Performance Measures."

For the twelve months ended September 30, 2014, our assets under management increased 18% to \$599.5 billion. The increase was primarily the result of \$38.8 billion from investment performance, \$26.5 billion from new investments and \$24.3 billion from organic growth from net client cash flows.

The table below summarizes our financial highlights:

(in millions, except as noted and per share data)	As of and for the Three Months Ended September 30,			As of and for the Nine Months Ended September 30,				
	2013	2014	% Change	2013	2014	% Change		
Assets under management (in billions)	\$508.4	\$599.5	18	% \$508.4	\$599.5	18	%	
Average assets under management (in billions)	493.7	604.3	22	% 470.4	576.5	23	%	
Revenue	551.6	640.3	16	% 1,594.8	1,869.7	17	%	
Net income (controlling interest)	75.2	104.3	39	% 202.3	281.5	39	%	
Earnings per share—diluted	1.37	1.84	34	% 3.70	5.01	35	%	
Economic net income (controlling interest) <sup>(1)</sup>	121.8	156.8	29	% 367.2	444.4	21	%	
Economic earnings per share <sup>(1)</sup>	2.19	2.76	26	% 6.63	7.90	19	%	
EBITDA (controlling interest) <sup>(1)</sup>	170.4	218.1	28	% 518.4	621.9	20	%	

(1) Economic net income (controlling interest), including Economic earnings per share, and EBITDA (controlling interest) are discussed in "Supplemental Performance Measures."

#### Supplemental Performance Measures

##### Economic Net Income (controlling interest)

As supplemental information, we provide non-GAAP performance measures that we refer to as Economic net income (controlling interest) and Economic earnings per share. We consider Economic net income an important measure of our financial performance, as we believe it best represents our operating performance before our share of non-cash expenses relating to our acquisition of interests in our Affiliates. Economic net income and Economic earnings per share are used by our management and Board of Directors as our principal performance benchmarks, including as measures for aligning executive compensation with stockholder value. These measures are provided in addition to, but not as a substitute for, Net income (controlling interest) and Earnings per share-diluted, or any other GAAP measure of financial performance or liquidity.

Under our Economic net income definition, we add to Net income (controlling interest) our share of amortization (including equity method amortization) and impairments, deferred taxes related to intangible assets, and other economic items which include non-cash imputed interest expense (principally related to the accounting for convertible securities and contingent payment arrangements) and certain Affiliate equity expenses. We add back amortization and impairments attributable to acquired client relationships because these expenses do not correspond to the changes in value of these assets, which do not diminish predictably over time. The portion of deferred taxes generally attributable to intangible assets (including goodwill) is added back because we believe it is unlikely these accruals will be used to settle material tax obligations. We add back non-cash imputed interest expense and reductions or increases in contingent payment arrangements because it better reflects our contractual interest obligations. We add back non-cash expenses relating to certain transfers of equity between Affiliate partners when these transfers have no dilutive effect to shareholders.

Economic earnings per share represents Economic net income divided by the adjusted diluted average shares outstanding. In this calculation, the potential share issuance in connection with our convertible securities is measured using a "treasury stock" method. Under this method, only the net number of shares of common stock equal to the value of these securities in excess of par, if any, are deemed to be outstanding. We believe the inclusion of net shares

under a treasury stock method best reflects the benefit of the increase in available capital resources (which could be used to repurchase shares of common stock) that occurs when these securities are converted and we are relieved of our debt obligation. This method does not take into account any increase or decrease in our cost of capital in an assumed conversion.

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

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(in millions, except per share data)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2013	2014	2013	2014
Net income (controlling interest)	\$75.2	\$104.3	\$202.3	\$281.5
Intangible amortization and impairments <sup>(1)</sup>	38.2	29.6	114.7	86.0
Intangible-related deferred taxes	5.2	19.6	29.4	55.5
Other economic items <sup>(2)</sup>	3.2	3.3	20.8	21.4
Economic net income (controlling interest)	\$121.8	\$156.8	\$367.2	\$444.4
Average shares outstanding—diluted	56.9	58.8	54.7	56.1
Assumed issuance of junior convertible securities shares	(2.0 )	(2.1 )	—	—
Dilutive impact of senior convertible securities shares	0.4	—	0.5	—
Dilutive impact of junior convertible securities shares	0.3	—	0.2	0.2
Average shares outstanding—adjusted diluted	55.6	56.7	55.4	56.3
Economic earnings per share	\$2.19	\$2.76	\$6.63	\$7.90

Our reported intangible amortization includes amortization attributable to our non-controlling interests, amounts not added back to Net income (controlling interest) to measure our Economic net income (controlling interest). (1)Further, for our equity method Affiliates, we do not separately report revenue or expenses (including intangible amortization) in our income statement. Our share of these Affiliates' amortization is reported in Income from equity method investments.

The following table summarizes the Intangible amortization and impairments shown above:

(in millions)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2013	2014	2013	2014
Reported Intangible amortization and impairments	\$32.7	\$28.7	\$98.1	\$84.2
Intangible amortization—non-controlling interests	(4.9 )	(6.4 )	(14.5 )	(18.2 )
Equity method amortization	10.4	7.3	31.1	20.0
	\$38.2	\$29.6	\$114.7	\$86.0

During the first half of 2013, we recognized a loss totaling \$10.3 million (\$6.3 million net of tax), related to certain of our contingent payment arrangements. During the first half of 2014, we settled our 2006 junior convertible (2)securities and recognized an expense of \$18.8 million (\$11.6 million net of tax) upon redemption. These losses were attributable to the controlling interest and are included in Imputed interest expense and contingent payment arrangements in the Consolidated Statements of Income.

#### EBITDA (controlling interest)

As supplemental information, we also provide a non-GAAP measure referred to as EBITDA (controlling interest). EBITDA represents the controlling interest's operating performance before our share of interest expense, income taxes, depreciation and amortization. We believe that many investors use this information when comparing the financial performance of companies in the investment management industry. EBITDA, as calculated by us, may not be consistent with computations of EBITDA by other companies. This non-GAAP performance measure is provided in addition to, but not as a substitute for, Net income (controlling interest) or any other GAAP measure of financial performance or liquidity.

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

(in millions)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2013	2014	2013	2014
Net income (controlling interest)	\$75.2	\$104.3	\$202.3	\$281.5
Interest expense	19.9	19.0	68.5	56.7
Imputed interest expense and contingent payment arrangements <sup>(1)</sup>	3.9	2.8	26.5	27.6
Income taxes	31.6	60.6	101.6	164.5
Depreciation and other amortization	1.6	1.8	4.8	5.6
Intangible amortization and impairments	38.2	29.6	114.7	86.0
EBITDA (controlling interest)	\$170.4	\$218.1	\$518.4	\$621.9

During the first half of 2013, we recognized a loss totaling \$10.3 million related to certain of our contingent payment arrangements. During the first half of 2014, we settled our 2006 junior convertible securities and (1) recognized an expense of \$18.8 million upon redemption. These losses were attributable to the controlling interest and are included in Imputed interest expense and contingent payment arrangements in the Consolidated Statements of Income.

#### Assets under Management

#### Diversification of Assets under Management

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

(in billions)	December 31, 2013			September 30, 2014		
	Assets under Management	Percentage of Total		Assets under Management	Percentage of Total	
Asset Class						
Equity <sup>(1)</sup>	\$351.8	65	%	\$373.6	62	%
Alternative <sup>(2)</sup>	128.4	24	%	166.4	28	%
Fixed Income	57.1	11	%	59.5	10	%
Total	\$537.3	100	%	\$599.5	100	%
Geography <sup>(3)</sup>						
Global	\$278.8	52	%	\$307.5	51	%
Domestic	202.0	38	%	229.9	38	%
Emerging Markets	56.5	10	%	62.1	11	%
Total	\$537.3	100	%	\$599.5	100	%

(1) The Equity asset class includes equity, balanced and asset allocation products.

(2) The Alternative asset class includes private equity, multi-strategy, market neutral equity and hedge products.

(3) The Geography of a particular investment product describes the general location of its investment holdings.

During the nine months ended September 30, 2014, our investments in new Affiliates, investment performance and net client cash flows increased our assets under management in the Alternative and Equity asset classes. The Fixed Income asset class also experienced growth from investment performance and net client cash flows. On a geographic basis, our investments in new Affiliates and investment performance increased our Domestic assets under management, while Emerging Markets and Global assets under management increased primarily from investment performance and net client cash flows.

#### Assets under Management by Operating Segment

The following table presents changes in our Affiliates' reported assets under management by operating segment (which are also referred to as distribution channels).



## Statement of Changes-Quarter to Date

(in billions)	Institutional	Mutual Fund	High Net Worth	Total
June 30, 2014	\$344.3	\$185.4	\$77.1	\$606.8
Client cash inflows	13.5	9.7	2.4	25.6
Client cash outflows	(7.5 )	(11.2 )	(1.9 )	(20.6 )
Net client cash flows	6.0	(1.5 )	0.5	5.0
Investment performance	(8.1 )	(4.6 )	(2.9 )	(15.6 )
Other <sup>(1)</sup>	3.3	—	(0.0 )	3.3
September 30, 2014	\$345.5	\$179.3	\$74.7	\$599.5

## Statement of Changes-Year to Date

(in billions)	Institutional	Mutual Fund	High Net Worth	Total
December 31, 2013	\$300.6	\$169.4	\$67.3	\$537.3
Client cash inflows	37.2	31.9	7.6	76.7
Client cash outflows	(22.1 )	(29.5 )	(6.3 )	(57.9 )
Net client cash flows	15.1	2.4	1.3	18.8
New Investments	18.6	3.7	4.1	26.4
Investment performance	8.3	3.8	2.0	14.1
Other <sup>(1)</sup>	2.9	—	(0.0 )	2.9
September 30, 2014	\$345.5	\$179.3	\$74.7	\$599.5

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

The net flows for the nine months ended September 30, 2014 occurred across a broad range of product offerings in each of our distribution channels, with no individual cash inflow or outflow having a significant impact on our revenue or expenses.

The operating segment analysis presented in the following table is based on average assets under management. For the Mutual Fund distribution channel, average assets under management represent an average of the daily net assets under management. For the Institutional and High Net Worth distribution channels, average assets under management reflect the billing patterns of particular client accounts. For example, assets under management for an account that bills in advance is presented in the table on the basis of beginning of period assets under management while an account that bills in arrears is reflected on the basis of end of period assets under management. Assets under management attributable to any investment in new Affiliates are included on a weighted average basis for the period from the closing date of the respective investment. We believe that this analysis more closely correlates to the billing cycle of each distribution channel and, as such, provides a more meaningful relationship to revenue.

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(in millions, except as noted)	For the Three Months Ended September 30,			For the Nine Months Ended September 30,				
	2013	2014	% Change	2013	2014	% Change		
Average Assets under Management (in billions)								
Including equity method Affiliates								
Institutional	\$280.5	\$346.9	24	% \$270.7	\$327.1	21	%	
Mutual Fund	151.2	182.2	21	% 140.0	177.0	26	%	
High Net Worth	62.0	75.2	21	% 59.7	72.4	21	%	
Total	\$493.7	\$604.3	22	% \$470.4	\$576.5	23	%	
Consolidated Affiliates								
Institutional	\$168.6	\$192.4	14	% \$166.5	\$186.3	12	%	
Mutual Fund	120.2	145.1	21	% 111.9	140.5	26	%	
High Net Worth	49.3	59.9	22	% 48.3	56.5	17	%	
Total	\$338.1	\$397.4	18	% \$326.7	\$383.3	17	%	
Revenue								
Institutional	\$229.1	\$256.1	12	% \$694.6	\$766.2	10	%	
Mutual Fund	268.0	319.6	19	% 741.5	921.5	24	%	
High Net Worth	54.5	64.6	19	% 158.7	182.0	15	%	
Total	\$551.6	\$640.3	16	% \$1,594.8	\$1,869.7	17	%	
Net income (controlling interest) <sup>(1)</sup>								
Institutional	\$39.8	\$46.3	16	% \$114.6	\$131.8	15	%	
Mutual Fund	27.8	48.1	73	% 67.2	123.1	83	%	
High Net Worth	7.6	9.9	30	% 20.5	26.6	30	%	
Total	\$75.2	\$104.3	39	% \$202.3	\$281.5	39	%	
EBITDA (controlling interest) <sup>(2)</sup>								
Institutional	\$90.9	\$109.4	20	% \$291.3	\$320.9	10	%	
Mutual Fund	62.4	86.9	39	% 177.8	239.9	35	%	
High Net Worth	17.1	21.8	27	% 49.3	61.1	24	%	
Total	\$170.4	\$218.1	28	% \$518.4	\$621.9	20	%	

(1) During the first half of 2013, we recognized a loss totaling \$10.3 million (all of which was attributable to controlling interest) related to certain of our contingent payment arrangements. The loss was allocated \$9.6 million and \$0.7 million to our Mutual Fund and High Net Worth channels, respectively. During the nine months ended September 30, 2014, there were no adjustments to our contingent payment arrangements.

(2) EBITDA (controlling interest), including a reconciliation to Net income (controlling interest), is discussed in "Supplemental Performance Measures."

#### Results of Operations

Our Affiliate investments are generally structured as revenue sharing arrangements. When we own a controlling interest, we consolidate the Affiliates' results. Our discussion of revenue and operating expenses relates to our consolidated Affiliates.

When we hold a minority investment and are required to use the equity method of accounting, we do not consolidate the operating results of these firms (including their revenue). Our share of these firms' earnings (net of intangible amortization) is reported in Income from equity method investments.

#### Revenue

Our revenue is generally determined by the level of our average assets under management and the composition of our assets across our operating segments and products within our operating segments, which realize different fee rates. Our ratio of revenue to average assets under management (in total and by channel) is calculated as revenue divided by



average assets under

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management and may change as a result of new investments, net client cash flows, performance and, to a lesser extent, changes in contractual fees. Therefore, changes in this ratio should not necessarily be viewed as an indicator of changes in contractual fee rates billed by our Affiliates to their clients.

Our revenue is also determined by the level of performance fees recognized. Performance fees are generally measured on absolute or relative investment performance against a benchmark. As a result, the level of performance fees earned can vary significantly from period to period and these fees may not necessarily be correlated to changes in assets under management.

Our revenue increased \$88.7 million (or 16%) and \$274.9 million (or 17%) in the three and nine months ended September 30, 2014, as compared to the three and nine months ended September 30, 2013, respectively, primarily from an increase in average assets under management from our consolidated Affiliates. The increase in average assets under management resulted principally from investment performance, net client cash flows and our 2014 investments in new Affiliates.

Changes in contractual fee rates did not have a significant impact on our results.

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

#### Institutional Distribution Channel

Our revenue in the Institutional distribution channel increased \$27.0 million (or 12%) and \$71.6 million (or 10%) in the three and nine months ended September 30, 2014, as compared to the three and nine months ended September 30, 2013, respectively, primarily from an increase in average assets under management from our consolidated Affiliates. The increase in average assets under management resulted principally from investment performance, net client cash flows and our 2014 investments in new Affiliates.

#### Mutual Fund Distribution Channel

Our revenue in the Mutual Fund distribution channel increased \$51.6 million (or 19%) and \$180.0 million (or 24%) in the three and nine months ended September 30, 2014, as compared to the three and nine months ended September 30, 2013, respectively, primarily from an increase in average assets under management from our consolidated Affiliates. The increase in average assets under management resulted principally from investment performance, net client cash flows and our 2014 investments in new Affiliates.

#### High Net Worth Distribution Channel

Our revenue in the High Net Worth distribution channel increased \$10.1 million (or 19%) and \$23.3 million (or 15%) in the three and nine months ended September 30, 2014, as compared to the three and nine months ended September 30, 2013, respectively, primarily from an increase in average assets under management from our consolidated Affiliates. The increase in average assets under management resulted principally from investment performance, net client cash flows and our 2014 investments in new Affiliates.

#### Operating Expenses

The following table summarizes our consolidated operating expenses:

(in millions)	For the Three Months Ended September 30,			For the Nine Months Ended September 30,			% Change	% Change
	2013	2014	% Change	2013	2014	% Change		
Compensation and related expenses	\$229.8	\$258.1	12 %	\$679.7	\$766.5	13 %		
Selling, general and administrative	106.4	114.4	8 %	298.2	359.5	21 %		
Intangible amortization and impairments	32.7	28.7	(12) %	98.1	84.2	(14) %		
Depreciation and other amortization	3.4	4.5	32 %	10.3	12.3	19 %		
Other operating expenses	10.2	10.4	2 %	27.5	30.6	11 %		
Total operating expenses	\$382.5	\$416.1	9 %	\$1,113.8	\$1,253.1	13 %		

A substantial portion of our operating expenses, including compensation expense, was incurred by our Affiliates, the majority of which was incurred by Affiliates with revenue sharing arrangements.

Compensation and related expenses increased \$28.3 million (or 12%) and \$86.8 million (or 13%) in the three and nine months ended September 30, 2014, as compared to the three and nine months ended September 30, 2013, respectively. These increases were primarily a result of increases in compensation expense at our Affiliates of \$25.6 million and \$72.7 million in the three and nine months ended September 30, 2014, respectively. In the nine months ended September 30, 2014, these increases were also the result of an increase in Affiliate equity expense primarily attributable to the non-controlling interests.

Selling, general and administrative expenses increased \$8.0 million (or 8%) and \$61.3 million (or 21%) in the three and nine months ended September 30, 2014, as compared to the three and nine months ended September 30, 2013, respectively. These increases resulted primarily from increases in sub-advisory and distribution expenses attributable to increases in assets under management at our Affiliates in the Mutual Fund distribution channel. In the nine months ended September 30, 2014, this increase was also attributable to increases in acquisition-related professional fees.

Intangible amortization and impairments decreased \$4.0 million (or 12%) and \$13.9 million (or 14%) in the three and nine months ended September 30, 2014, as compared to the three and nine months ended September 30, 2013, respectively. These decreases, primarily the result of certain assets being fully amortized in 2013, were partially offset by the impact of amortization resulting from 2014 investments in new Affiliates.

#### Income from Equity Method Investments

When we own a minority investment and are required to use the equity method of accounting, we only recognize our share of these Affiliates' earnings (generally calculated as a fixed percentage of revenue) net of intangible amortization. Accordingly, we have not consolidated these Affiliates' operating results (including their revenue). The following table summarizes our share of the profits from our equity method investments:

(in millions)	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2013	2014	% Change	2013	2014	% Change
Equity method earnings	\$44.5	\$57.4	29 %	\$152.1	\$172.6	13 %
Equity method amortization	10.4	7.3	(30)%	31.1	20.0	(36)%
Income from equity method investments	\$34.1	\$50.1	47 %	\$121.0	\$152.6	26 %

Equity method earnings increased \$12.9 million (or 29%) and \$20.5 million (or 13%) in the three and nine months ended September 30, 2014, as compared to the three and nine months ended September 30, 2013, respectively. These increases were the result of higher revenue from increases in average assets under management, as well as our 2014 investment in a new Affiliate. The increase in the nine months ended September 30, 2014 was partially offset by a decline in performance fees earned in 2014 as compared to 2013. Equity method amortization decreased \$3.1 million (or 30%) and \$11.1 million (or 36%) in the three and nine months ended September 30, 2014, as compared to the three and nine months ended September 30, 2013, respectively. These decreases were primarily the result of certain assets being fully amortized in 2013.

#### Other Income Statement Data

The following table summarizes other income statement data:

(in millions)	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2013	2014	% Change	2013	2014	% Change
Investment and other income	\$8.0	\$2.6	(68)%	\$20.0	\$19.2	(4)%
Interest expense	19.9	19.0	(5)%	68.5	56.7	(17)%
Imputed interest and contingent payment arrangements	3.9	2.8	(28)%	26.5	27.6	4%
Income tax expense	31.0	64.1	107%	106.6	174.7	64%

Investment and other income decreased \$5.4 million (or 68%) and \$0.8 million (or 4%) in the three and nine months ended September 30, 2014, as compared to the three and nine months ended September 30, 2013, principally as a result of decreases in Affiliate investment earnings.

Interest expense decreased \$0.9 million (or 5%) and \$11.8 million (or 17%) in the three and nine months ended September 30, 2014, as compared to the three and nine months ended September 30, 2013, principally as a result of

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settlement of our 2006 junior convertible securities (\$3.8 million and \$10.6 million, respectively,) as well as the settlement of our 2008 senior convertible securities (\$1.9 million and \$13.2 million, respectively). This decrease was partially offset by the interest expense on our 4.25% senior notes due 2024 (the "2024 senior notes") issued in February 2014.

Imputed interest and contingent payment arrangements decreased \$1.1 million (or 28%) in the three months ended September 30, 2014, as compared to the three months ended September 30, 2013. The decrease was primarily a result of a \$1.8 million decrease from the settlement of our 2008 senior convertible securities in the three months ended September 30, 2013, which did not reoccur in the three months ended September 30, 2014. Imputed interest and contingent payment arrangements increased \$1.1 million (or 4%) in the nine months ended September 30, 2014, as compared to the nine months ended September 30, 2013. The increase was primarily a result of an \$18.8 million increase in imputed interest expense from the settlement of our 2006 junior convertible securities, partially offset by a \$10.3 million loss on the revaluation of our contingent payment arrangements and a decrease in imputed interest from the settlement of our 2008 senior convertible securities in the nine months ended September 30, 2013, which did not reoccur in the nine months ended September 30, 2014.

Income taxes increased \$33.1 million (or 107%) and \$68.1 million (or 64%) in the three and nine months ended September 30, 2014, as compared to the three and nine months ended September 30, 2013, respectively. These increases were primarily as a result of an increase in pre-tax earnings and a benefit from a 2013 United Kingdom tax rate change that did not reoccur in 2014.

#### Net Income

The following table summarizes Net income:

(in millions)	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2013	2014	% Change	2013	2014	% Change
Net income	\$156.4	\$191.0	22 %	\$420.4	\$529.4	26 %
Net income (non-controlling interests)	81.2	86.7	7 %	218.1	247.9	14 %
Net income (controlling interest)	75.2	104.3	39 %	202.3	281.5	39 %

Net income increased \$34.6 million (or 22%) and \$109.0 million (or 26%) in the three and nine months ended September 30, 2014 as compared to the three and nine months ended September 30, 2013, respectively. These increases were a result of an increase in operating income (resulting from the previously discussed changes in revenue and operating expenses) as well as an increase in equity method income, partially offset by an increase in income tax expense.

#### Liquidity and Capital Resources

During the nine months ended September 30, 2014, we met our cash requirements primarily through cash generated by operating activities and the issuance of the 2024 senior notes. Our principal uses of cash were to repay senior bank debt, make distributions to Affiliate partners, make investments in new Affiliates and repurchase shares of our common stock.

We expect that our principal uses of cash for the foreseeable future will be for investments in new and existing Affiliates, distributions to Affiliate partners, payment of principal and interest on outstanding debt, share repurchases and general working capital purposes. We anticipate that cash flows from operations, together with borrowings under our senior unsecured revolving credit facility (the "credit facility") and proceeds from any forward equity transactions, will be sufficient to support our cash flow needs for the foreseeable future.

(in millions)	December 31, 2013	September 30, 2014
Cash and cash equivalents	\$469.6	\$560.2

(in millions)	For the Nine Months Ended September 30,	
Cash Flow Data	2013	2014
Operating cash flow	\$747.6	\$1,030.4

Investing cash flow	(43.8	)	(551.0	)
Financing cash flow	(611.6	)	(385.5	)

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**Operating Cash Flow**

Net cash flow from operating activities increased \$282.8 million in the nine months ended September 30, 2014 as compared to the nine months ended September 30, 2013. This increase was primarily the result of an increase in net income of \$109.0 million and distributions received from equity method investments of \$128.2 million, as well as a decrease in receivables of \$30.3 million.

**Investing Cash Flow**

Net cash flow used in investing activities increased \$507.2 million in the nine months ended September 30, 2014, as compared to the nine months ended September 30, 2013. The increase was primarily due to an increase in investments in Affiliates of \$508.1 million.

**Financing Cash Flow**

Net cash flow used in financing activities decreased \$226.1 million in the nine months ended September 30, 2014 as compared to the nine months ended September 30, 2013. The decrease was primarily the result of an increase in net borrowings of senior debt in the nine months ended September 30, 2014 of \$512.2 million, partially offset by an increase in distributions to non-controlling interests of \$249.7 million.

We used available cash and borrowings under our credit facility to finance our 2014 investments in new Affiliates.

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

(in millions)	December 31, 2013	September 30, 2014
Senior bank debt	\$525.0	\$250.0
Senior notes	340.0	736.7
Convertible securities	518.7	302.6

**Senior Bank Debt**

We have a \$1.25 billion credit facility which matures in April 2018. As of September 30, 2014, there were no outstanding borrowings.

On April 15, 2014, we entered into a \$250.0 million five-year senior unsecured term loan. We pay interest at specified rates (based on either the LIBOR rate or the prime rate as in effect from time to time). The proceeds were used to repay existing borrowings under our credit facility. Subject to certain conditions, we may borrow up to an additional \$100.0 million.

The credit facility and term loan contain financial covenants with respect to leverage and interest coverage, as well as customary affirmative and negative covenants, including limitations on priority indebtedness, liens, cash dividends, asset dispositions, fundamental corporate changes and certain customary events of default. We were in compliance with all terms of both our credit facility and term loan. We could borrow all remaining capacity and continue to be in compliance.

We are rated BBB by both Standard & Poor's and Fitch rating agencies. With the exception of a 0.25% increase in the borrowing rate under our credit facility and term loan, a downgrade of our credit rating would have no direct financial effect on any of our agreements or securities (or otherwise trigger a default).

**Senior Notes**

On February 11, 2014, we sold \$400.0 million aggregate principal amount of the 2024 senior notes. The unsecured 2024 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 underlying indenture limits our ability to consolidate, merge or sell all or substantially all of our assets, and to create certain liens. The proceeds were used to repay existing borrowings under our credit facility and for other general corporate purposes.

**Convertible Securities**

On February 13, 2014, we delivered a notice to redeem all of our outstanding 2006 junior convertible securities. In lieu of redemption, substantially all holders of the 2006 junior convertible securities elected to convert their securities into a defined number of shares. We issued 1.9 million shares of our common stock in connection with the conversion. All of the our 2006 junior convertible securities have been canceled and retired.

#### Forward Equity

Under a forward equity agreement, we may sell shares of common stock up to an aggregate notional amount of \$400.0 million. During 2012, we entered into contracts to sell a notional amount of \$147.2 million at an average share price of \$121.37. During 2013, we net settled \$77.0 million notional amount of forward equity contracts at an average share price of \$185.56. During the first half of 2014, we net settled \$70.2 million notional amount of forward equity contracts at an average share price of \$198.71. We have \$252.8 million million remaining notional amount that we may elect to sell under the forward equity agreement.

#### Affiliate Equity

Many of our operating agreements provide us a conditional right to call and Affiliate partners the conditional right to put their retained equity interests at certain intervals. The purchase price of these conditional purchases are generally calculated based upon a multiple of the Affiliate's cash flow distributions, which is intended to represent fair value.

Affiliate management partners are also permitted to sell their equity interests to other individuals or entities in certain cases, subject to our approval or other restrictions.

Our current redemption value for these interests has been presented as Redeemable non-controlling interests on our Consolidated Balance Sheets. Although the timing and amounts of these purchases are difficult to predict, we expect to repurchase approximately \$75.0 million of Affiliate equity during 2014, and, in such event, will own the cash flow associated with any equity repurchased.

#### Commitments

We have committed to co-invest in certain investment partnerships. As of September 30, 2014, these unfunded commitments totaled approximately \$70.6 million and may be called in future periods. In connection with a past acquisition agreement, we are contractually entitled to reimbursement from a prior owner for \$23.8 million of these commitments if they are called.

Under past acquisition agreements, we are contingently liable, upon achievement of specified financial targets, to make payments of up to \$524.1 million through 2017. In 2014, we do not expect to make any payments to settle these contingent arrangements.

#### Share Repurchases

Our Board of Directors has periodically authorized share repurchase programs (most recently October 2011). The maximum number of shares that may be repurchased under outstanding programs is approximately 2.0 million. The timing and amount of repurchases are determined at the discretion of management. There were approximately 0.3 million shares repurchased during the nine months ended September 30, 2014 at an average price per share of \$206.81.

#### Contractual Obligations

The following table summarizes our contractual obligations as of September 30, 2014. Contractual debt obligations include the cash payment of fixed interest.



(in millions)	Total	Payments Due			
		Remainder of 2014	2015-2016	2017-2018	Thereafter
<b>Contractual Obligations</b>					
Senior bank debt	\$250.0	\$—	\$—	\$—	\$250.0
Senior notes	1,330.7	13.5	74.2	74.2	1,168.8
Junior convertible securities	946.6	5.5	44.4	44.4	852.3
Leases	193.3	9.2	57.9	44.4	81.8
Other liabilities <sup>(1)</sup>	27.0	27.0	—	—	—
Derivative instruments	3.6	1.3	2.0	0.3	—
Total contractual obligations	\$2,751.2	\$56.5	\$178.5	\$163.3	\$2,352.9
<b>Contingent Obligations</b>					
Contingent payment obligations <sup>(2)</sup>	\$276.0	\$—	\$188.7	\$87.3	\$—

Other liabilities reflect amounts payable to Affiliate managers related to our purchase of Affiliate equity interests.

(1) This table does not include liabilities for uncertain tax positions or commitments to co-invest in certain investment partnerships (of \$19.4 million and \$70.6 million as of September 30, 2014, respectively), as we cannot predict when such obligations will be paid.

The amount of contingent payments disclosed in the table represents our expected settlement amounts related to (2) consolidated Affiliates and maximum settlement amounts related to our equity method investments. The maximum settlement amount through 2014 is approximately \$248.1 million and \$276.0 million in periods thereafter.

#### Recent Accounting Developments

See Note 2 of the Consolidated Financial Statements.

#### Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no significant changes to our Quantitative and Qualitative Disclosures About Market Risk in the three months ended September 30, 2014. Please refer to Item 7A in our 2013 Annual Report on Form 10-K.

#### Item 4. Controls and Procedures

We carried out an evaluation under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures during the quarter covered by this Quarterly Report on Form 10-Q. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the quarter covered by this Quarterly Report on Form 10-Q, our disclosure controls and procedures are effective in ensuring that (i) the information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and (ii) such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, we recognize that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and our management necessarily was required to apply its judgment in evaluating and implementing possible controls and procedures. Our disclosure controls and procedures were designed to provide reasonable assurance of achieving their stated objectives and our principal executive officer and principal financial officers concluded that our disclosure controls and procedures are effective at the reasonable assurance level. We review on an ongoing basis and document our disclosure controls and procedures, and our internal control over financial reporting, and we may from time to time make changes in an effort to enhance their effectiveness and ensure that our systems evolve with our business. No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the quarter covered by this Quarterly Report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.



## PART II—OTHER INFORMATION

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

(a) None.

(b) None.

(c) Purchases of Equity Securities by the Issuer.

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under Outstanding Plans or Programs <sup>(1)</sup>
July 1-31, 2014	—	\$—	—	2,203,749
August 1-31, 2014	143,691	203.52	143,691	2,060,058
September 1-30, 2014	106,309	211.25	106,309	1,953,749
Total	250,000	206.81	250,000	

In July 2010 and October 2011, the Board of Directors approved share repurchase programs authorizing us to repurchase up to 0.5 million and 2.0 million shares, respectively, of our common stock. The Company repurchased approximately 0.3 million shares during the three months ended September 30, 2014. As of September 30, 2014, approximately 2.0 million shares remain available for repurchase under these programs, which do not expire. Purchases may be made from time to time, at management's discretion.

## Item 6. Exhibits

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

**SIGNATURES**

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

November 6, 2014

AFFILIATED MANAGERS GROUP, INC.

(Registrant)

/s/ JAY C. HORGEN

Jay C. Horgen

on behalf of the Registrant as Chief Financial Officer and  
Treasurer (and also as Principal Financial and Principal  
Accounting Officer)

EXHIBIT INDEX

Exhibit No.	Description
31.1	Certification of Registrant's Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Registrant's Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Registrant's Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Registrant's Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following financial statements from the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2014 are filed herewith, formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Statements of Income for the three and nine month periods ended September 30, 2014 and 2013, (ii) the Consolidated Balance Sheets at September 30, 2014 and December 31, 2013, (iii) the Consolidated Statements of Equity for the nine month period ended September 30, 2014 and 2013, (iv) the Consolidated Statements of Cash Flows for the nine month period ended September 30, 2014 and 2013, and (v) the Notes to the Consolidated Financial Statements.

[QuickLinks](#)

**PART I—FINANCIAL INFORMATION**

**Item 1. Financial Statements**

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

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

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

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

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

**AFFILIATED MANAGERS GROUP, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

**Item 4. Controls and Procedures**

**PART II—OTHER INFORMATION**

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

**Item 6. Exhibits**

**SIGNATURES**

**EXHIBIT INDEX**