

AFFILIATED MANAGERS GROUP INC  
Form 10-Q  
August 09, 2011

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**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, DC 20549**

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**FORM 10-Q**

(Mark One)

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

**For the quarterly period ended June 30, 2011**

**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**

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**Affiliated Managers Group, Inc.**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction  
of incorporation or organization)

**04-3218510**  
(IRS Employer Identification Number)

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

**(617) 747-3300**  
(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☐

(Do not check if a smaller  
reporting company)

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

There were 52,055,990 shares of the registrant's common stock outstanding on August 3, 2011.

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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<br>Months Ended<br>June 30, |          | For the Six<br>Months Ended<br>June 30, |          |
|------------------------------------------------------------|-------------------------------------------|----------|-----------------------------------------|----------|
|                                                            | 2010                                      | 2011     | 2010                                    | 2011     |
| Revenue                                                    | \$ 332.1                                  | \$ 462.3 | \$ 583.1                                | \$ 888.5 |
| Operating expenses:                                        |                                           |          |                                         |          |
| Compensation and related expenses                          | 142.7                                     | 196.5    | 262.0                                   | 376.0    |
| Selling, general and administrative                        | 72.1                                      | 90.6     | 117.4                                   | 178.1    |
| Amortization of intangible assets                          | 9.6                                       | 22.1     | 18.5                                    | 44.2     |
| Depreciation and other amortization                        | 3.4                                       | 3.8      | 6.4                                     | 7.6      |
| Other operating expenses                                   | 8.5                                       | 9.3      | 14.4                                    | 17.7     |
|                                                            | 236.3                                     | 322.3    | 418.7                                   | 623.6    |
| Operating income                                           | 95.8                                      | 140.0    | 164.4                                   | 264.9    |
| Non-operating (income) and expenses:                       |                                           |          |                                         |          |
| Investment and other (income) loss                         | (0.7)                                     | 6.1      | (3.5)                                   | (2.6)    |
| Income from equity method investments                      | (9.9)                                     | (20.1)   | (19.0)                                  | (30.3)   |
| Investment loss from Affiliate investments in partnerships | 8.6                                       |          | 4.5                                     |          |
| Interest expense                                           | 16.3                                      | 18.1     | 32.4                                    | 37.4     |
| Imputed interest expense                                   | 6.4                                       | 8.3      | 10.1                                    | 16.6     |
|                                                            | 20.7                                      | 12.4     | 24.5                                    | 21.1     |
| Income before income taxes                                 | 75.1                                      | 127.6    | 139.9                                   | 243.8    |
| Income taxes                                               | 16.9                                      | 26.6     | 28.9                                    | 53.4     |
| Net income                                                 | 58.2                                      | 101.0    | 111.0                                   | 190.4    |
| Net income (non-controlling interests)                     | (41.4)                                    | (55.5)   | (72.7)                                  | (105.9)  |
| Net loss (non-controlling interests in partnerships)       | 8.4                                       |          | 4.4                                     |          |
| Net Income (controlling interest)                          | \$ 25.2                                   | \$ 45.5  | \$ 42.7                                 | \$ 84.5  |
| Average shares outstanding basic                           | 44.6                                      | 52.1     | 43.5                                    | 51.9     |
| Average shares outstanding diluted                         | 47.6                                      | 53.4     | 46.5                                    | 53.3     |
| Earnings per share basic                                   | \$ 0.56                                   | \$ 0.87  | \$ 0.98                                 | \$ 1.63  |
| Earnings per share diluted                                 | \$ 0.53                                   | \$ 0.85  | \$ 0.92                                 | \$ 1.59  |
| Supplemental disclosure of total comprehensive income:     |                                           |          |                                         |          |
| Net income                                                 | \$ 58.2                                   | \$ 101.0 | \$ 111.0                                | \$ 190.4 |
| Other comprehensive income (loss)                          | (24.2)                                    | (1.5)    | 1.2                                     | 9.9      |
| Comprehensive income                                       | 34.0                                      | 99.5     | 112.2                                   | 200.3    |
| Comprehensive income (non-controlling interests)           | (33.0)                                    | (55.5)   | (68.3)                                  | (105.9)  |

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|                                             |    |     |    |      |    |      |    |      |
|---------------------------------------------|----|-----|----|------|----|------|----|------|
| Comprehensive income (controlling interest) | \$ | 1.0 | \$ | 44.0 | \$ | 43.9 | \$ | 94.4 |
|---------------------------------------------|----|-----|----|------|----|------|----|------|

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

## AFFILIATED MANAGERS GROUP, INC.

## CONSOLIDATED BALANCE SHEETS

(in millions)

(unaudited)

|                                               | December 31,<br>2010 | June 30,<br>2011 |
|-----------------------------------------------|----------------------|------------------|
| <b>Assets</b>                                 |                      |                  |
| Current assets:                               |                      |                  |
| Cash and cash equivalents                     | \$ 313.3             | \$ 311.2         |
| Investment advisory fees receivable           | 236.4                | 252.7            |
| Investments in marketable securities          | 116.0                | 147.0            |
| Unsettled fund share receivables              | 42.0                 | 92.0             |
| Prepaid expenses and other current assets     | 61.7                 | 74.3             |
| Total current assets                          | 769.4                | 877.2            |
| Fixed assets, net                             | 67.7                 | 65.0             |
| Equity investments in Affiliates              | 678.9                | 622.9            |
| Acquired client relationships, net            | 1,424.2              | 1,384.6          |
| Goodwill                                      | 2,131.2              | 2,138.1          |
| Other assets                                  | 219.8                | 237.2            |
| Total assets                                  | \$ 5,291.2           | \$ 5,325.0       |
| <b>Liabilities and Equity</b>                 |                      |                  |
| Current liabilities:                          |                      |                  |
| Accounts payable and accrued liabilities      | \$ 252.8             | \$ 297.5         |
| Unsettled fund share payables                 | 39.8                 | 72.6             |
| Payables to related party                     | 114.8                | 17.1             |
| Total current liabilities                     | 407.4                | 387.2            |
| Senior debt                                   | 460.0                | 295.0            |
| Senior convertible securities                 | 422.1                | 428.9            |
| Junior convertible trust preferred securities | 509.9                | 511.2            |
| Deferred income taxes                         | 495.4                | 508.1            |
| Other long-term liabilities                   | 207.8                | 216.1            |
| Total liabilities                             | 2,502.6              | 2,346.5          |
| Redeemable non-controlling interests          | 406.3                | 517.9            |
| Equity:                                       |                      |                  |
| Common stock                                  | 0.5                  | 0.5              |
| Additional paid-in capital                    | 980.5                | 866.5            |
| Accumulated other comprehensive income        | 100.5                | 110.4            |
| Retained earnings                             | 1,011.8              | 1,096.3          |
|                                               | 2,093.3              | 2,073.7          |
| Less treasury stock, at cost                  | (293.3)              | (239.9)          |
| Total stockholders' equity                    | 1,800.0              | 1,833.8          |
| Non-controlling interests                     |                      |                  |

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582.3      626.8

|              |         |         |
|--------------|---------|---------|
| Total equity | 2,382.3 | 2,460.6 |
|--------------|---------|---------|

|                              |            |            |
|------------------------------|------------|------------|
| Total liabilities and equity | \$ 5,291.2 | \$ 5,325.0 |
|------------------------------|------------|------------|

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

## AFFILIATED MANAGERS GROUP, INC.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(in millions)

(unaudited)

|                                                     | Total Stockholders' Equity |            |               |            |            |             |            |
|-----------------------------------------------------|----------------------------|------------|---------------|------------|------------|-------------|------------|
|                                                     | Accumulated                |            |               |            |            |             |            |
|                                                     | Common                     | Additional | Other         | Retained   | Treasury   | Non-        | Total      |
|                                                     | Stock                      | Paid-In    | Comprehensive | Earnings   | Shares at  | controlling | Equity     |
|                                                     |                            | Capital    | Income        |            | Cost       | interests   |            |
| December 31, 2010                                   | \$ 0.5                     | \$ 980.5   | \$ 100.5      | \$ 1,011.8 | \$ (293.3) | \$ 582.3    | \$ 2,382.3 |
| Stock issued under option and other incentive plans |                            | (32.5)     |               |            | 53.4       |             | 20.9       |
| Tax benefit of option exercises                     |                            | 5.7        |               |            |            |             | 5.7        |
| Changes in Affiliate equity                         |                            | (102.1)    |               |            |            | 28.2        | (73.9)     |
| Share-based payment arrangements                    |                            | 14.9       |               |            |            |             | 14.9       |
| Distributions to non-controlling interests          |                            |            |               |            |            | (82.6)      | (82.6)     |
| Investments in Affiliates                           |                            |            |               |            |            | (7.0)       | (7.0)      |
| Net Income                                          |                            |            |               | 84.5       |            | 105.9       | 190.4      |
| Other comprehensive income                          |                            |            | 9.9           |            |            |             | 9.9        |
| June 30, 2011                                       | \$ 0.5                     | \$ 866.5   | \$ 110.4      | \$ 1,096.3 | \$ (239.9) | \$ 626.8    | \$ 2,460.6 |

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

## AFFILIATED MANAGERS GROUP, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)

(unaudited)

|                                                                                                 | For the Three<br>Months Ended<br>June 30, |          | For the Six<br>Months Ended<br>June 30, |          |
|-------------------------------------------------------------------------------------------------|-------------------------------------------|----------|-----------------------------------------|----------|
|                                                                                                 | 2010                                      | 2011     | 2010                                    | 2011     |
| Cash flow from operating activities:                                                            |                                           |          |                                         |          |
| Net income                                                                                      | \$ 58.2                                   | \$ 101.0 | \$ 111.0                                | \$ 190.4 |
| Adjustments to reconcile Net income to net cash flow<br>from operating activities:              |                                           |          |                                         |          |
| Amortization of intangible assets                                                               | 9.6                                       | 22.1     | 18.5                                    | 44.2     |
| Amortization of issuance costs                                                                  | 1.8                                       | 1.8      | 3.7                                     | 4.4      |
| Depreciation and other amortization                                                             | 3.4                                       | 3.8      | 6.4                                     | 7.6      |
| Deferred income tax provision                                                                   | 9.0                                       | 7.4      | 17.7                                    | 17.0     |
| Imputed interest expense                                                                        | 6.4                                       | 8.3      | 10.1                                    | 16.6     |
| Income from equity method investments, net of<br>amortization                                   | (9.9)                                     | (20.1)   | (19.0)                                  | (30.3)   |
| Distributions received from equity method<br>investments                                        | 13.6                                      | 18.6     | 36.8                                    | 83.5     |
| Tax benefit from exercise of stock options                                                      | 1.8                                       | 0.0      | 2.1                                     | 0.8      |
| Share-based compensation                                                                        | 3.2                                       | 5.9      | 6.8                                     | 12.0     |
| Affiliate equity expense                                                                        | 3.4                                       | 3.7      | 6.8                                     | 7.2      |
| Other adjustments                                                                               | 13.5                                      | 12.9     | 9.5                                     | 7.2      |
| Changes in assets and liabilities:                                                              |                                           |          |                                         |          |
| Increase in investment advisory fees receivable                                                 | (24.4)                                    | (21.8)   | (25.3)                                  | (18.8)   |
| (Increase) decrease in prepaids and other current<br>assets                                     | 8.2                                       | (0.6)    | 19.2                                    | (3.0)    |
| (Increase) decrease in other assets                                                             | 3.0                                       | (0.7)    | (8.1)                                   | (3.6)    |
| (Increase) decrease in unsettled fund shares<br>receivable                                      | 96.5                                      | 12.0     | (2.2)                                   | (48.7)   |
| Increase (decrease) in unsettled fund shares payable                                            | (106.1)                                   | (22.9)   | 2.3                                     | 31.5     |
| Increase (decrease) in accounts payable, accrued<br>liabilities and other long-term liabilities | 23.9                                      | 48.8     | (13.2)                                  | (7.6)    |
| Cash flow from operating activities                                                             | 115.1                                     | 180.2    | 183.1                                   | 310.4    |
| Cash flow used in investing activities:                                                         |                                           |          |                                         |          |
| Investments in Affiliates                                                                       | (665.4)                                   |          | (793.0)                                 | (13.3)   |
| Purchase of fixed assets                                                                        | (2.0)                                     | (2.7)    | (3.2)                                   | (4.4)    |
| Purchase of investment securities                                                               | (15.5)                                    | (2.4)    | (30.4)                                  | (11.5)   |
| Sale of investment securities                                                                   |                                           |          | 11.8                                    | 12.0     |
| Cash flow used in investing activities                                                          | (682.9)                                   | (5.1)    | (814.8)                                 | (17.2)   |
| Cash flow from (used in) financing activities:                                                  |                                           |          |                                         |          |
| Borrowings of senior bank debt                                                                  | 782.5                                     | 110.0    | 1,017.5                                 | 110.0    |
| Repayments of senior bank debt                                                                  | (293.0)                                   | (155.0)  | (358.0)                                 | (275.0)  |
| Issuance of common stock                                                                        | 23.0                                      | 5.7      | 25.4                                    | 20.9     |
| Issuance costs                                                                                  | (0.1)                                     |          | (0.2)                                   | (7.7)    |
| Excess tax benefit from exercise of stock options                                               | 4.4                                       |          | 4.7                                     | 4.9      |
| Settlement of treasury lock                                                                     |                                           |          |                                         | 4.0      |
| Settlement of forward equity sale agreement                                                     | 100.0                                     |          | 100.0                                   |          |
| Note payments                                                                                   | (0.5)                                     | (72.5)   | (25.9)                                  | (72.5)   |
| Distributions to non-controlling interests                                                      | (23.1)                                    | (13.2)   | (60.2)                                  | (82.6)   |
| Affiliate equity issuances and repurchases                                                      | (6.9)                                     | 8.0      | (109.5)                                 | 0.1      |
| Cash flow from (used in) financing activities                                                   | 586.3                                     | (117.0)  | 593.8                                   | (297.9)  |



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|                                                                      |       |       |        |       |
|----------------------------------------------------------------------|-------|-------|--------|-------|
| Effect of foreign exchange rate changes on cash and cash equivalents | (1.8) | 0.3   | (1.1)  | 2.6   |
| Net increase (decrease) in cash and cash equivalents                 | 16.7  | 58.4  | (39.0) | (2.1) |
| Cash and cash equivalents at beginning of period                     | 203.8 | 252.8 | 259.5  | 313.3 |

|                                            |    |       |  |       |    |       |  |       |
|--------------------------------------------|----|-------|--|-------|----|-------|--|-------|
| Cash and cash equivalents at end of period | \$ | 220.5 |  | 311.2 | \$ | 220.5 |  | 311.2 |
|--------------------------------------------|----|-------|--|-------|----|-------|--|-------|

## Supplemental disclosure of non-cash financing activities:

|                                                                    |    |       |    |     |    |       |    |      |
|--------------------------------------------------------------------|----|-------|----|-----|----|-------|----|------|
| Notes received for Affiliate equity sales                          | \$ | 1.9   | \$ | 2.1 | \$ | 7.6   | \$ | 11.6 |
| Payables recorded for Affiliate equity purchases                   |    |       |    | 5.9 |    | 15.3  |    | 12.9 |
| Payables recorded under contingent payment arrangements            |    | 15.3  |    |     |    | 64.3  |    |      |
| Stock issued for Investments in Affiliates                         |    | 146.9 |    |     |    | 146.9 |    |      |
| Stock issued for conversion of zero coupon senior convertible note |    | 47.8  |    |     |    | 47.8  |    |      |
| Stock issued for settlement of forward equity sale agreement       |    | 44.5  |    |     |    | 44.5  |    |      |

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

**AFFILIATED MANAGERS GROUP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. Basis of Presentation**

The consolidated financial statements of Affiliated Managers Group, Inc. ("AMG" or the "Company") have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. The year-end condensed balance sheet data was derived from audited financial statements, but does not include all of the disclosures required by accounting principles generally accepted in the United States of America. In the opinion of management, all adjustments considered necessary for a fair statement of the results have been included. All intercompany balances and transactions have been eliminated. Certain reclassifications have been made to the prior period's financial statements to conform to the current period's presentation. Operating results for interim periods are not necessarily indicative of the results that may be expected for any other period or for the full year. The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2010 includes additional information about AMG, its operations, financial position and accounting policies, and should be read in conjunction with this Quarterly Report on Form 10-Q.

All dollar and share amounts in these notes (except information that is presented on a per share, per security, per note or per contract basis) are stated in millions, unless otherwise indicated.

**2. Senior Bank Debt**

The Company has a revolving credit facility (the "credit facility") which allows for borrowings of up to \$750.0 million at specified rates of interest that vary depending on the Company's credit ratings. Subject to the agreement of the lenders to provide incremental commitments and subject to certain requirements in the credit facility, the Company has the option to increase the credit facility by up to an additional \$150.0 million.

The credit facility, which will mature in January 2015, is unsecured and contains financial covenants with respect to leverage and interest coverage and also contains customary affirmative and negative covenants, including limitations on indebtedness, liens, cash dividends, asset dispositions and fundamental corporate changes. At June 30, 2011, the Company had \$295.0 million of outstanding borrowings.

As further described in Note 15, the Company has entered into interest rate swap contracts to exchange a fixed rate for the variable rate on a portion of its credit facility.

**3. Convertible Securities**

At June 30, 2011, the Company has one senior convertible security outstanding ("2008 senior convertible notes") and two junior convertible trust preferred securities outstanding issued in 2006 (the

## AFFILIATED MANAGERS GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

"2006 junior convertible trust preferred securities") and in 2007 (the "2007 junior convertible trust preferred securities"). The carrying values of the Company's convertible securities are as follows:

|                                                                   | December 31, 2010 |                              | June 30, 2011  |                              |
|-------------------------------------------------------------------|-------------------|------------------------------|----------------|------------------------------|
|                                                                   | Carrying Value    | Principal amount at maturity | Carrying Value | Principal amount at maturity |
| Senior convertible securities:                                    |                   |                              |                |                              |
| 2008 senior convertible notes <sup>(1)</sup>                      | \$ 422.1          | \$ 460.0                     | \$ 428.9       | \$ 460.0                     |
| Junior convertible trust preferred securities:                    |                   |                              |                |                              |
| 2007 junior convertible trust preferred securities <sup>(1)</sup> | \$ 296.3          | \$ 430.8                     | \$ 297.0       | \$ 430.8                     |
| 2006 junior convertible trust preferred securities <sup>(1)</sup> | 213.6             | 300.0                        | 214.2          | 300.0                        |
| Total junior convertible securities                               | \$ 509.9          | \$ 730.8                     | \$ 511.2       | \$ 730.8                     |

(1)

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

The principal terms of these securities are summarized below.

|                                   | 2008 Senior Convertible Notes <sup>(1)</sup> | 2007 Junior Convertible Trust Preferred Securities <sup>(2)</sup> | 2006 Junior Convertible Trust Preferred Securities <sup>(3)</sup> |
|-----------------------------------|----------------------------------------------|-------------------------------------------------------------------|-------------------------------------------------------------------|
| Issue Date                        | August 2008                                  | October 2007                                                      | April 2006                                                        |
| Maturity Date                     | August 2038                                  | October 2037                                                      | April 2036                                                        |
| Next Potential Put Date           | August 2013                                  | N/A                                                               | N/A                                                               |
| Denomination                      | \$1,000                                      | \$50                                                              | \$50                                                              |
| Current Conversion Rate           | 7.959                                        | 0.250                                                             | 0.333                                                             |
| Current Conversion Price          | \$125.65                                     | \$200.00                                                          | \$150.00                                                          |
| Stated Coupon                     | 3.95%                                        | 5.15%                                                             | 5.10%                                                             |
| Coupon Frequency                  | Semi-annually                                | Quarterly                                                         | Quarterly                                                         |
| Tax Deduction Rate <sup>(4)</sup> | 9.38%                                        | 8.00%                                                             | 7.50%                                                             |

(1)

The Company may redeem the notes for cash (subject to the holders' rights to convert) at any time on or after August 15, 2013.

(2)

The Company may redeem the 2007 junior convertible trust preferred securities on or after October 15, 2012 if the closing price of the Company's common stock exceeds \$260 per share for a specified period of time.

(3)

The Company may redeem the 2006 junior convertible trust preferred securities on or after April 15, 2011 if the closing price of the Company's common stock exceeds \$195 per share for a specified period of time.

(4)

These convertible securities are considered contingent payment debt instruments under federal income tax regulations, which require the Company to deduct interest in an amount greater than its reported interest expense. These deductions result in annual deferred tax

liabilities of approximately \$22.5 million. These deferred tax liabilities will be

## AFFILIATED MANAGERS GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

reclassified directly to stockholders' equity if the Company's common stock is trading above certain thresholds at the time of the conversion of the securities.

**4. Forward Equity Sale Agreements**

In July 2011, the Company entered into a forward equity sale agreement with two major securities firms under which it may sell shares of common stock with an aggregate sales price of up to \$300 million.

**5. Income Taxes**

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

|                                                                               | For the Three<br>Months<br>Ended June 30, |                | For the Six Months<br>Ended June 30, |                 |
|-------------------------------------------------------------------------------|-------------------------------------------|----------------|--------------------------------------|-----------------|
|                                                                               | 2010                                      | 2011           | 2010                                 | 2011            |
| <b>Controlling Interests:</b>                                                 |                                           |                |                                      |                 |
| Current Tax                                                                   | \$ 5.3                                    | \$ 16.4        | \$ 7.8                               | \$ 30.0         |
| Intangible related deferred taxes                                             | 14.3                                      | 12.9           | 25.1                                 | 25.8            |
| Other Deferred Taxes                                                          | (4.8)                                     | (5.0)          | (6.9)                                | (7.8)           |
| <b>Total Controlling Interests</b>                                            | <b>14.8</b>                               | <b>24.3</b>    | <b>26.0</b>                          | <b>48.0</b>     |
| <b>Non-Controlling Interests:</b>                                             |                                           |                |                                      |                 |
| Current Tax                                                                   | \$ 2.6                                    | \$ 2.8         | \$ 3.4                               | \$ 6.4          |
| Deferred Taxes                                                                | (0.5)                                     | (0.5)          | (0.5)                                | (1.0)           |
| <b>Total Non-Controlling Interests</b>                                        | <b>2.1</b>                                | <b>2.3</b>     | <b>2.9</b>                           | <b>5.4</b>      |
| <b>Provision for income taxes</b>                                             | <b>\$ 16.9</b>                            | <b>\$ 26.6</b> | <b>\$ 28.9</b>                       | <b>\$ 53.4</b>  |
| <b>Income before income taxes (controlling interest)</b>                      | <b>\$ 40.0</b>                            | <b>\$ 69.8</b> | <b>\$ 68.7</b>                       | <b>\$ 132.5</b> |
| <b>Effective Tax rate attributable to controlling interests<sup>(1)</sup></b> | <b>37.0%</b>                              | <b>34.8%</b>   | <b>37.8%</b>                         | <b>36.2%</b>    |

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

## AFFILIATED MANAGERS GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

|                               | For the Three<br>Months<br>Ended June 30, |         | For the Six Months<br>Ended June 30, |         |
|-------------------------------|-------------------------------------------|---------|--------------------------------------|---------|
|                               | 2010                                      | 2011    | 2010                                 | 2011    |
| Current:                      |                                           |         |                                      |         |
| Federal                       | \$ 0.5                                    | \$ 7.0  | \$ (0.2)                             | \$ 13.2 |
| State                         | 2.3                                       | 1.7     | 3.4                                  | 4.9     |
| Foreign                       | 5.1                                       | 10.5    | 8.0                                  | 18.3    |
| Total Current                 | 7.9                                       | 19.2    | 11.2                                 | 36.4    |
| Deferred:                     |                                           |         |                                      |         |
| Federal                       | \$ 8.5                                    | \$ 9.2  | \$ 16.4                              | \$ 20.6 |
| State                         | 1.6                                       | 0.5     | 2.8                                  | 1.1     |
| Foreign                       | (1.1)                                     | (2.3)   | (1.5)                                | (4.7)   |
| Total Deferred                | 9.0                                       | 7.4     | 17.7                                 | 17.0    |
| Provision for<br>Income Taxes | \$ 16.9                                   | \$ 26.6 | 28.9                                 | \$ 53.4 |

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

|                                                 | December 31,<br>2010 | June 30,<br>2011 |
|-------------------------------------------------|----------------------|------------------|
| <b>Deferred Tax Assets</b>                      |                      |                  |
| State net operating loss carryforwards          | \$ 30.6              | \$ 28.6          |
| Foreign tax credit carryforwards                | 17.3                 | 20.6             |
| Deferred compensation                           | 10.3                 | 13.4             |
| Tax benefit of uncertain tax positions          | 10.8                 | 11.1             |
| Accrued expenses                                | 8.5                  | 10.7             |
| Capital loss carryforwards                      | 1.5                  | 1.5              |
| Total deferred tax assets                       | 79.0                 | 85.9             |
| Valuation allowance                             | (38.4)               | (36.6)           |
| Deferred tax assets, net of valuation allowance | \$ 40.6              | \$ 49.3          |
| <b>Deferred Tax Liabilities</b>                 |                      |                  |
| Intangible asset amortization                   | \$ (209.3)           | \$ (231.0)       |
| Convertible securities interest                 | (154.5)              | (162.6)          |
| Non-deductible intangible amortization          | (143.1)              | (141.8)          |
| Deferred revenue                                | (26.3)               | (19.4)           |
| Other                                           | (2.8)                | (2.6)            |
| Total deferred tax liabilities                  | (536.0)              | (557.4)          |
| Net deferred tax liability                      | \$ (495.4)           | \$ (508.1)       |

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



## AFFILIATED MANAGERS GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

convertible trust preferred securities also generate deferred taxes because the Company's tax deductions are higher than the interest expense recorded for financial statement purposes.

At June 30, 2011, the Company has state net operating loss carryforwards that expire over a 15-year period beginning in 2011. The Company also has foreign tax credit carryforwards that expire over a 10-year period beginning in 2011. The valuation allowances at December 31, 2010 and June 30, 2011 were principally related to the Company's ability to generate sufficient taxable income prior to the expiration of these carryforwards.

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

At June 30, 2011, the Company's liability for uncertain tax positions was \$23.2 million, including \$11.1 million of liabilities that would generate tax benefits if settled. The Company's liability for uncertain tax positions also includes \$2.6 million for interest and related charges. As a result of tax examination settlements and the expiration of statutes of limitations, this liability could increase by up to \$3.0 million in the next 12 months.

**6. 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<br>Three Months<br>Ended June 30, |         | For the<br>Six Months<br>Ended June 30, |         |
|----------------------------------------------------------|-------------------------------------------|---------|-----------------------------------------|---------|
|                                                          | 2010                                      | 2011    | 2010                                    | 2011    |
| <b>Numerator:</b>                                        |                                           |         |                                         |         |
| Net Income (controlling interest)                        | \$ 25.2                                   | \$ 45.5 | \$ 42.7                                 | \$ 84.5 |
| Interest expense on convertible securities, net of taxes | 0.0                                       |         | 0.0                                     |         |
| Net Income (controlling interest), as adjusted           | \$ 25.2                                   | \$ 45.5 | \$ 42.7                                 | \$ 84.5 |
| <b>Denominator:</b>                                      |                                           |         |                                         |         |
| Average shares outstanding basic                         | 44.6                                      | 52.1    | 43.5                                    | 51.9    |
| Effect of dilutive instruments:                          |                                           |         |                                         |         |
| Stock options                                            | 1.0                                       | 1.3     | 1.0                                     | 1.4     |
| Forward sale                                             | 1.4                                       |         | 1.3                                     |         |
| Senior convertible securities                            | 0.6                                       |         | 0.7                                     |         |
| Average shares outstanding diluted                       | 47.6                                      | 53.4    | 46.5                                    | 53.3    |

As more fully discussed in Note 3, the Company had convertible securities outstanding during the periods presented and is required to apply the if-converted method to these securities in its calculation of diluted earnings per share. Under the if-converted method, shares that are issuable upon conversion are deemed outstanding, regardless of whether the securities are contractually convertible into the



## AFFILIATED MANAGERS GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Company's common stock at that time. For this calculation, the interest expense (net of tax) attributable to these dilutive securities is added back to Net Income (controlling interest), reflecting the assumption that the securities have been converted. Issuable shares for these securities and related interest expense are excluded from the calculation if an assumed conversion would be anti-dilutive to diluted earnings per share.

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

|                                               | For the Three<br>Months<br>Ended June 30, |      | For the Six<br>Months<br>Ended June 30, |      |
|-----------------------------------------------|-------------------------------------------|------|-----------------------------------------|------|
|                                               | 2010                                      | 2011 | 2010                                    | 2011 |
| Stock options                                 | 0.8                                       | 0.6  | 1.2                                     | 0.6  |
| Senior convertible securities                 | 3.7                                       | 3.7  | 3.7                                     | 3.7  |
| Junior convertible trust preferred securities | 4.1                                       | 4.1  | 4.1                                     | 4.1  |

As discussed further in Note 18, the Company may settle portions of its Affiliate equity purchases in shares of its common stock. Because it is the Company's intent to settle these potential repurchases in cash, the calculation of diluted earnings per share excludes any potential dilutive effect from possible share settlements.

## 7. Commitments and Contingencies

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

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

In connection with its investment in Pantheon Ventures, the Company has committed to co-invest in certain investment partnerships where it serves as the general partner. As of June 30, 2011, these commitments totaled approximately \$89.6 million and may be called in future periods. Russell Investments (Pantheon Ventures former owner) is contractually obligated to reimburse the Company for \$58.7 million of these commitments if they are called.

Under past acquisition agreements, the Company is contingently liable, upon achievement of specified financial targets, to make payments of up to \$496.8 million through 2015. In 2011, the Company expects to make payments of approximately \$1.4 million to settle portions of these contingent obligations.

**AFFILIATED MANAGERS GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****8. Investments in Marketable Securities**

Investments in marketable securities are comprised of the Company's investments in Value Partners Group Limited ("Value Partners"), a publicly-traded asset management firm based in Hong Kong, and investments held by Affiliates. The Company invested an additional \$38.6 million in Value Partners during the quarter for a total investment of \$79.6 million, representing 7.8% of the outstanding common stock at June 30, 2011. These investments are carried at their fair value. Changes in fair value for securities classified as available-for-sale are reported in accumulated other comprehensive income. Changes in fair value for trading securities are reported within other operating expenses.

A summary of our investments in marketable securities follows:

|                                              | December 31, |       | June 30, 2011 |       |
|----------------------------------------------|--------------|-------|---------------|-------|
|                                              | 2010         |       | 2011          |       |
| Cost of investments in marketable securities | \$           | 68.9  | \$            | 107.1 |
| Gross unrealized gains                       |              | 47.1  |               | 39.9  |
| Gross unrealized losses                      |              | (0.0) |               | (0.0) |
| Total                                        | \$           | 116.0 | \$            | 147.0 |

**9. Cost Method Investments**

The Company has other cost method investments reported in "Other assets" in which it owns less than a 20% interest and does not exercise significant influence. The balance of these investments was \$27.4 million and \$14.6 million as of December 31, 2010 and June 30, 2011, respectively. During the three months ended June 30, 2011, the Company determined that the value of a cost method investment had been reduced to zero and recorded a \$12.8 million write-down in "Investment and other (income) loss" (allocated to the Company's High Net Worth distribution channel see Note 16).

**10. Unsettled Fund Share Receivables and Payables**

Unsettled fund share receivables and payables are created by the normal settlement periods on transactions initiated by certain clients of Affiliate funds domiciled in the United Kingdom. The gross presentation of the receivable and offsetting payable reflects the legal relationship between the underlying investor and the Company.

**11. Fair Value Measurements**

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

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

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

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

## AFFILIATED MANAGERS GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

|                                                     | December 31,<br>2010 | Fair Value Measurements |         |         |
|-----------------------------------------------------|----------------------|-------------------------|---------|---------|
|                                                     |                      | Level 1                 | Level 2 | Level 3 |
| <b>Financial Assets</b>                             |                      |                         |         |         |
| Cash and cash equivalents                           | \$ 36.0              | \$ 36.0                 | \$      | \$      |
| Partnership investments <sup>(1)</sup>              | 124.5                | 16.9                    | 21.8    | 85.8    |
| Investments in marketable securities <sup>(2)</sup> |                      |                         |         |         |
| Trading securities                                  | 15.4                 | 15.2                    | 0.2     |         |
| Available for sale securities                       | 100.6                | 99.2                    | 1.4     |         |
| Interest rate derivatives                           | 5.9                  |                         | 5.9     |         |
| <b>Financial Liabilities</b>                        |                      |                         |         |         |
| Contingent payment obligations <sup>(3)</sup>       | \$ 84.0              | \$                      | \$      | \$ 84.0 |
| Obligations to related parties                      | 79.6                 |                         |         | 79.6    |

|                                                     | June 30,<br>2011 | Fair Value Measurements |         |         |
|-----------------------------------------------------|------------------|-------------------------|---------|---------|
|                                                     |                  | Level 1                 | Level 2 | Level 3 |
| <b>Financial Assets</b>                             |                  |                         |         |         |
| Cash and cash equivalents                           | \$ 16.2          | \$ 16.2                 | \$      | \$      |
| Partnership investments <sup>(1)</sup>              | 166.4            | 36.2                    | 28.2    | 102.0   |
| Investments in marketable securities <sup>(2)</sup> |                  |                         |         |         |
| Trading securities                                  | 15.7             | 15.7                    |         |         |
| Available for sale securities                       | 131.3            | 131.3                   |         |         |
| Interest rate derivatives                           | 0.7              |                         | 0.7     |         |
| <b>Financial Liabilities</b>                        |                  |                         |         |         |
| Contingent payment obligations <sup>(3)</sup>       | \$ 91.7          | \$                      | \$      | \$ 91.7 |
| Obligations to related parties                      | 71.2             |                         |         | 71.2    |

- (1) Partnerships investments are reported within "Prepaid expenses and other current assets" and "Other assets" on the Consolidated Balance Sheets.
- (2) Principally investments in equity securities.
- (3) Contingent payment obligations are reported in "Other long-term liabilities."

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

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

*Partnership investments* consist of investments in funds advised by Affiliates and are valued using net asset value ("NAV"). Investments in actively traded funds that calculate daily NAVs are classified as Level 1. Investments in non-public funds that hold investments with observable market prices are classified as Level 2. Investments in funds that hold illiquid securities or that are subject to redemption restrictions are classified as Level 3. The fair value of Level 3 assets was determined using NAV one quarter in arrears (adjusted for current period calls and distributions).



## AFFILIATED MANAGERS GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

*Investments in marketable securities* consist primarily of investments in funds advised by Affiliates which are valued using NAV and in publicly traded securities. Investments in actively traded funds that calculate daily NAVs and actively traded public securities are classified as Level 1. Investments in other funds that hold investments with observable market prices are classified as Level 2.

*Interest rate derivatives* include Treasury rate lock contracts and interest rate swaps at December 31, 2010 and only interest rate swaps at June 30, 2011. The fair value of these assets was determined by model-derived valuations in which all significant inputs were observable in active markets.

*Contingent payment obligations* represents the present value of the expected future settlement of contingent payment arrangements related to the Company's business combinations. The fair value of these obligations is determined using an income approach with assumptions made about future cash flows and discount rates.

*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 fair value of the agreements to repurchase Affiliate equity is determined using an income approach with assumptions made about future cash flows and discount rates. The liability to a related party is measured based upon certain investments held by the Company, the fair value of which is determined using NAV.

The following tables present the changes in Level 3 assets and liabilities for the three and six months ended June 30, 2010 and 2011:

## Level 3 Financial Assets and Financial Liabilities at Fair Value

|                                  | Balance,<br>beginning<br>of<br>period | Net<br>realized<br>gains/(losses) | Net<br>unrealized<br>gains/losses<br>relating to<br>instruments<br>still held<br>at the<br>reporting<br>date | Net<br>purchases,<br>issuances<br>and<br>settlements | Settlements<br>and<br>reductions | Net<br>transfers<br>in<br>and/or<br>out<br>of<br>Level 3 | Balance,<br>end<br>of period |
|----------------------------------|---------------------------------------|-----------------------------------|--------------------------------------------------------------------------------------------------------------|------------------------------------------------------|----------------------------------|----------------------------------------------------------|------------------------------|
| Three Months Ended June 30, 2010 |                                       |                                   |                                                                                                              |                                                      |                                  |                                                          |                              |
| Partnership investments          | \$ 0.3                                | \$ (0.1) <sup>(1)</sup>           | \$                                                                                                           | \$ 63.5                                              | \$                               | \$                                                       | \$ 63.7                      |
| Contingent payment obligations   | 49.1                                  | 2.6 <sup>(2)</sup>                | (0.8) <sup>(2)</sup>                                                                                         | 15.3                                                 |                                  |                                                          | 66.2                         |
| Obligations to related parties   | 15.3                                  |                                   |                                                                                                              | 33.7                                                 |                                  |                                                          | 49.0                         |

## Level 3 Financial Assets and Financial Liabilities at Fair Value

|                                  | Balance,<br>beginning<br>of<br>period | Net<br>realized<br>gains/(losses) | Net<br>unrealized<br>gains/losses<br>relating to<br>instruments<br>still held<br>at the<br>reporting<br>date | Net<br>purchases,<br>issuances<br>and<br>settlements | Settlements<br>and<br>reductions | Net<br>transfers<br>in<br>and/or<br>out<br>of<br>Level 3 | Balance,<br>end<br>of period |
|----------------------------------|---------------------------------------|-----------------------------------|--------------------------------------------------------------------------------------------------------------|------------------------------------------------------|----------------------------------|----------------------------------------------------------|------------------------------|
| Three Months Ended June 30, 2011 |                                       |                                   |                                                                                                              |                                                      |                                  |                                                          |                              |
| Partnership investments          | \$ 93.6                               | \$ (0.1) <sup>(1)</sup>           | \$ 4.9 <sup>(1)</sup>                                                                                        | \$ 5.8                                               | \$ (2.2)                         | \$                                                       | \$ 102.0                     |
| Contingent payment obligations   | 89.4                                  |                                   | 4.0 <sup>(2)</sup>                                                                                           |                                                      | (1.7)                            |                                                          | 91.7                         |
| Obligations to related parties   | 67.9                                  | 0.3 <sup>(3)</sup>                | 1.1 <sup>(3)</sup>                                                                                           | 3.4                                                  | (1.5)                            |                                                          | 71.2                         |

## Level 3 Financial Assets and Financial Liabilities at Fair Value

| Six Months Ended June 30, 2010 | Balance,<br>beginning<br>of<br>period | Net<br>realized<br>gains/(losses) | Net<br>unrealized<br>gains/losses<br>relating to<br>instruments<br>still held | Net<br>purchases,<br>issuances<br>and<br>settlements | Settlements<br>and<br>reductions | Net<br>transfers<br>in<br>and/or<br>out<br>of<br>Level 3 | Balance,<br>end<br>of period |
|--------------------------------|---------------------------------------|-----------------------------------|-------------------------------------------------------------------------------|------------------------------------------------------|----------------------------------|----------------------------------------------------------|------------------------------|
|--------------------------------|---------------------------------------|-----------------------------------|-------------------------------------------------------------------------------|------------------------------------------------------|----------------------------------|----------------------------------------------------------|------------------------------|

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|                                | at the<br>reporting<br>date |      |    |                      |    |                      |    |        |    |        |  |      |
|--------------------------------|-----------------------------|------|----|----------------------|----|----------------------|----|--------|----|--------|--|------|
| Partnership investments        | \$                          | 4.0  | \$ | (0.1) <sup>(1)</sup> | \$ | 63.5                 | \$ | (3.7)  | \$ | 63.7   |  |      |
| Contingent payment obligations |                             | 27.1 |    | 2.6 <sup>(2)</sup>   |    | (0.8) <sup>(2)</sup> |    | 64.4   |    | (27.1) |  | 66.2 |
| Obligations to related parties |                             | 78.7 |    | (0.2) <sup>(3)</sup> |    | 49.0                 |    | (78.5) |    | 49.0   |  |      |

## AFFILIATED MANAGERS GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## Level 3 Financial Assets and Financial Liabilities at Fair Value

| Six Months Ended June 30, 2011 | Balance,<br>beginning<br>of<br>period | Net<br>realized<br>gains/(losses) | Net<br>unrealized<br>gains/losses<br>relating to<br>instruments<br>still held<br>at the<br>reporting<br>date | Net<br>purchases,<br>issuances<br>and<br>settlements | Settlements<br>and<br>reductions | Net<br>transfers<br>in<br>and/or<br>out<br>of<br>Level 3 | Balance,<br>end<br>of period |
|--------------------------------|---------------------------------------|-----------------------------------|--------------------------------------------------------------------------------------------------------------|------------------------------------------------------|----------------------------------|----------------------------------------------------------|------------------------------|
| Partnership investments        | \$ 85.8                               | \$ 1.0 <sup>(1)</sup>             | \$ 10.5 <sup>(1)</sup>                                                                                       | \$ 8.6                                               | \$ (3.9)                         | \$                                                       | \$ 102.0                     |
| Contingent payment obligations | 84.0                                  |                                   | 9.4 <sup>(2)</sup>                                                                                           |                                                      | (1.7)                            |                                                          | 91.7                         |
| Obligations to related parties | 79.6                                  | 0.6 <sup>(3)</sup>                | 3.6 <sup>(3)</sup>                                                                                           | 13.0                                                 | (25.6)                           |                                                          | 71.2                         |

(1) Recorded in "Investment and other (income) loss" and "Investment loss from Affiliate investments in partnerships."

(2) Recorded in "Imputed interest expense" and "Other comprehensive income (loss)."

(3) Recorded in "Interest expense" and "Investment and other (income) loss."

There were no significant transfers of financial assets or liabilities between Level 2 and Level 1 in the three-month or six-month periods ended June 30, 2010 and 2011.

The Company relies on 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, 2010 and June 30, 2011, the nature of these investments and any related liquidation restrictions or other factors which may impact the ultimate value realized:

| Category of Investment                      | December 31, 2010 |                      | June 30, 2011 |                      |
|---------------------------------------------|-------------------|----------------------|---------------|----------------------|
|                                             | Fair Value        | Unfunded Commitments | Fair Value    | Unfunded Commitments |
| Private equity fund-of-funds <sup>(1)</sup> | \$ 85.7           | \$ 89.2              | \$ 102.0      | \$ 89.6              |
| Other funds <sup>(2)</sup>                  | 55.2              |                      | 65.1          |                      |
|                                             | \$ 140.9          | \$ 89.2              | \$ 167.1      | \$ 89.6              |

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

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

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

The carrying amount of the Company's cash, cash equivalents and short-term investments 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 of the notes are at market rates. The carrying value of notes payable approximates fair value principally because of the short-term nature of the notes. The

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carrying value of senior bank debt approximates fair value because the debt is a credit facility with variable interest based on selected short-term rates. The fair market



## AFFILIATED MANAGERS GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

value of the 2008 senior convertible notes and the junior convertible trust preferred securities at June 30, 2011 was \$513.2 million and \$653.1 million, respectively.

**12. Variable Interest Entities***Sponsored Investment Funds*

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

*Trust Preferred Vehicles*

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

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

|                            | December 31, 2010                                       |        | June 30, 2011                                           |        |
|----------------------------|---------------------------------------------------------|--------|---------------------------------------------------------|--------|
|                            | Carrying Value<br>and<br>Maximum<br>Exposure<br>to Loss |        | Carrying Value<br>and<br>Maximum<br>Exposure<br>to Loss |        |
|                            | Unconsolidated<br>VIE Net Assets                        |        | Unconsolidated<br>VIE Net Assets                        |        |
| Sponsored investment funds | \$ 3,350.7                                              | \$ 0.9 | \$ 3,635.9                                              | \$ 1.0 |
| Trust preferred vehicles   | 9.0                                                     | 9.0    | 9.0                                                     | 9.0    |

**13. Related Party Transactions**

The Company periodically records amounts receivable and payable to Affiliate partners in connection with the transfer of Affiliate equity interests. The Company also has liabilities to related parties for deferred purchase price and contingent payment obligations in connection with certain business combinations.

The total receivable as of December 31, 2010 was \$42.9 million, which is included in "Other assets." The total receivable as of June 30, 2011 was \$53.6 million, of which \$3.3 million is included in "Prepaid expenses and other current assets" and \$50.3 million is included in "Other assets." The total payable as of December 31, 2010 was \$183.0 million, of which \$114.8 million is included in "Payables to related party" and \$68.2 million is included in "Other long-term liabilities." The total payable as of June 30, 2011 was \$80.1 million, of which \$17.1 million is included in "Payables to related party" and \$63.0 million is included in "Other long-term liabilities."

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

## AFFILIATED MANAGERS GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 14. Stock Option and Incentive Plans

The following summarizes the transactions of the Company's stock option and incentive plans for the six months ended June 30, 2011:

|                                                    | Stock Options | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Remaining<br>Contractual<br>Life (years) |
|----------------------------------------------------|---------------|------------------------------------------|-----------------------------------------------------------------|
| Unexercised options<br>outstanding January 1, 2011 | 5.1           | \$ 62.34                                 |                                                                 |
| Options granted                                    |               |                                          |                                                                 |
| Options exercised                                  | (0.4)         | 47.23                                    |                                                                 |
| Options forfeited                                  | (0.0)         | 110.31                                   |                                                                 |
| Unexercised options<br>outstanding June 30, 2011   | 4.7           | 63.75                                    | 4.7                                                             |

|                              |     |       |     |
|------------------------------|-----|-------|-----|
| Exercisable at June 30, 2011 | 2.3 | 59.22 | 3.8 |
|------------------------------|-----|-------|-----|

The Company's Net Income (controlling interest) for the three and six months ended June 30, 2011 includes compensation expense of \$3.6 million and \$7.4 million, respectively (net of income tax benefits of \$2.2 million and \$4.6 million, respectively, related to the Company's Stock Option and Incentive, Executive Incentive, Long-Term Equity Interests and Deferred Compensation Plans). As of June 30, 2011, the Company expects to recognize compensation expense related to these share-based compensation arrangements of \$63.8 million over a weighted average period of approximately three years (assuming no forfeitures). As of June 30, 2011, no outstanding options have expiration dates prior to the end of 2011.

## 15. Derivative Financial Instruments

The Company periodically uses derivative contracts to manage interest rate exposure associated with its variable interest rate debt.

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

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

In November 2010, the Company entered into a series of treasury rate lock contracts with a total notional value of \$100.0 million which were settled in February 2011 for a net pre-tax gain of \$4.0 million (each contract was designated and qualified as a cash flow hedge). These contracts were intended to hedge the risks associated with changes in interest rates on a fixed-rate debt issuance that is anticipated to occur prior to June 2012. The gain on these contracts is reflected as a component of other comprehensive income and will be recognized as a deduction to interest expense over the life of

## AFFILIATED MANAGERS GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

the expected fixed rate debt issuance, or recorded as other income in the event the Company determines that it is not probable it will issue the anticipated fixed rate debt.

Certain of the Company's derivative contracts contain provisions that may require the Company or the counterparties to post collateral based upon the current fair value of the derivative contracts. As of June 30, 2011, the Company had posted collateral of \$1.3 million.

The Company records all derivative instruments on the balance sheet at fair value. As cash flow hedges, the effective portion of the unrealized gain or loss on the derivative instruments is recorded in accumulated other comprehensive income as a separate component of stockholders' equity. Hedge effectiveness is measured by comparing the present value of the cumulative change in the expected future variable cash flows of the hedged contract with the present value of the cumulative change in the expected future variable cash flows of the hedged item. To the extent that the critical terms of the hedged item and the derivative are not identical, hedge ineffectiveness would be reported in earnings as interest expense. Hedge ineffectiveness was not material in any periods presented. As of June 30, 2011, the unrealized gain (before taxes) on the derivative instruments was \$0.7 million. The Company does not expect to reclassify any material portion of the unrealized gain into earnings in the next twelve months.

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

|                     | Amount of Gain (Loss)<br>Recognized in Other<br>Comprehensive Income<br>For the Three Months Ended<br>June 30, |          | Amount of Gain (Loss)<br>Recognized in Other<br>Comprehensive Income<br>For the Six Months Ended<br>June 30, |          |
|---------------------|----------------------------------------------------------------------------------------------------------------|----------|--------------------------------------------------------------------------------------------------------------|----------|
|                     | 2010                                                                                                           | 2011     | 2010                                                                                                         | 2011     |
| Cash Flow Hedges    |                                                                                                                |          |                                                                                                              |          |
| Interest rate swaps | \$                                                                                                             | \$ (2.4) | \$                                                                                                           | \$ (1.8) |
| Treasury rate locks |                                                                                                                |          |                                                                                                              | 0.5      |
| Total               | \$                                                                                                             | \$ (2.4) | \$                                                                                                           | \$ (1.3) |

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

|                                    | December 31,<br>2010 | June 30,<br>2011 |
|------------------------------------|----------------------|------------------|
| Cash Flow Hedges                   |                      |                  |
| Interest rate swaps <sup>(1)</sup> | \$ 2.5               | \$ 0.7           |
| Treasury rate locks <sup>(1)</sup> | 3.4                  |                  |
| Total                              | \$ 5.9               | \$ 0.7           |

(1)  
Recorded in "Other assets."

The Company does not hold or issue derivative financial instruments for trading purposes. Interest rate swaps and treasury locks are intended to enable the Company to achieve a level of variable-rate and fixed-rate debt that is acceptable to management and to limit interest rate exposure.



**AFFILIATED MANAGERS GROUP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**16. Segment Information**

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

Revenue in the Mutual Fund distribution channel is earned from advisory and sub-advisory relationships with all domestically-registered investment products as well as non-institutional investment products that are registered abroad.

Revenue in the Institutional distribution channel is earned from relationships with foundations and endowments, defined benefit and defined contribution plans and Taft-Hartley plans. Revenue in the High Net Worth distribution channel is earned from relationships with high net worth individuals, family trusts and managed account programs.

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

In firms with revenue sharing arrangements, a certain percentage of revenue is allocated for use by management of an Affiliate in paying operating expenses of that Affiliate, including salaries and bonuses, and is called an "Operating Allocation." In reporting segment operating expenses, Affiliate expenses are allocated to a particular segment on a pro rata basis with respect to the revenue generated by that Affiliate in such segment. Generally, as revenue increases, additional compensation is typically paid to Affiliate management partners from the Operating Allocation. As a result, the contractual expense allocation pursuant to a revenue sharing arrangement may result in the characterization of any growth in profit margin beyond the Company's Owners' Allocation as an operating expense. All other operating expenses (excluding intangible amortization) and interest expense are generally allocated to segments based on the proportion of cash flow distributions reported by Affiliates in each segment.

## AFFILIATED MANAGERS GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## Statements of Income

For the Three Months Ended June 30, 2010

|                                                               | Mutual Fund | Institutional | High Net Worth | Total    |
|---------------------------------------------------------------|-------------|---------------|----------------|----------|
| Revenue                                                       | \$ 148.0    | \$ 152.3      | \$ 31.8        | \$ 332.1 |
| Operating expenses:                                           |             |               |                |          |
| Depreciation and other amortization                           | 2.6         | 8.3           | 2.1            | 13.0     |
| Other operating expenses                                      | 102.7       | 99.6          | 21.0           | 223.3    |
|                                                               | 105.3       | 107.9         | 23.1           | 236.3    |
| Operating income                                              | 42.7        | 44.4          | 8.7            | 95.8     |
| Non-operating (income) and expenses:                          |             |               |                |          |
| Investment and other (income) loss                            | 1.4         | (1.3)         | (0.8)          | (0.7)    |
| Income from equity method investments                         | (0.4)       | (8.6)         | (0.9)          | (9.9)    |
| Investment loss from Affiliate investments in partnerships    | 0.1         | 0.4           | 8.1            | 8.6      |
| Interest expense                                              | 9.2         | 11.3          | 2.2            | 22.7     |
|                                                               | 10.3        | 1.8           | 8.6            | 20.7     |
| Income before income taxes                                    | 32.4        | 42.6          | 0.1            | 75.1     |
| Income taxes                                                  | 7.5         | 7.9           | 1.5            | 16.9     |
| Net income                                                    | 24.9        | 34.7          | (1.4)          | 58.2     |
| Net income (non-controlling interests)                        | (14.7)      | (22.8)        | (3.9)          | (41.4)   |
| Net (income) loss (non-controlling interests in partnerships) | 0.1         | 0.4           | 7.9            | 8.4      |
| Net Income (controlling interest)                             | \$ 10.3     | \$ 12.3       | \$ 2.6         | \$ 25.2  |

## AFFILIATED MANAGERS GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

|                                                                     | For the Three Months Ended June 30, 2011 |               |                |          |
|---------------------------------------------------------------------|------------------------------------------|---------------|----------------|----------|
|                                                                     | Mutual Fund                              | Institutional | High Net Worth | Total    |
| Revenue                                                             | \$ 192.5                                 | \$ 233.9      | \$ 35.9        | \$ 462.3 |
| Operating expenses:                                                 |                                          |               |                |          |
| Depreciation and other amortization                                 | 4.0                                      | 19.8          | 2.1            | 25.9     |
| Other operating expenses                                            | 130.0                                    | 144.2         | 22.2           | 296.4    |
|                                                                     | 134.0                                    | 164.0         | 24.3           | 322.3    |
| Operating income                                                    | 58.5                                     | 69.9          | 11.6           | 140.0    |
| Non-operating (income) and expenses:                                |                                          |               |                |          |
| Investment and other (income) loss                                  | (1.2)                                    | (4.5)         | 11.8           | 6.1      |
| (Income) loss from equity method investments                        | 0.9                                      | (19.9)        | (1.1)          | (20.1)   |
| Investment (income) loss from Affiliate investments in partnerships |                                          |               |                |          |
| Interest expense                                                    | 10.0                                     | 14.3          | 2.1            | 26.4     |
|                                                                     | 9.7                                      | (10.1)        | 12.8           | 12.4     |
| Income before income taxes                                          | 48.8                                     | 80.0          | (1.2)          | 127.6    |
| Income taxes                                                        | 11.0                                     | 17.4          | (1.8)          | 26.6     |
| Net income                                                          | 37.8                                     | 62.6          | 0.6            | 101.0    |
| Net income (non-controlling interests)                              | (19.0)                                   | (32.4)        | (4.1)          | (55.5)   |
| Net income (non-controlling interests in partnerships)              |                                          |               |                |          |
| Net Income (controlling interest)                                   | \$ 18.8                                  | \$ 30.2       | \$ (3.5)       | \$ 45.5  |

## AFFILIATED MANAGERS GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

| For the Six Months Ended June 30, 2010                              |             |               |                |          |
|---------------------------------------------------------------------|-------------|---------------|----------------|----------|
|                                                                     | Mutual Fund | Institutional | High Net Worth | Total    |
| Revenue                                                             | \$ 245.9    | \$ 274.1      | \$ 63.1        | \$ 583.1 |
| Operating expenses:                                                 |             |               |                |          |
| Depreciation and other amortization                                 | 4.8         | 15.7          | 4.4            | 24.9     |
| Other operating expenses                                            | 169.5       | 182.8         | 41.5           | 393.8    |
|                                                                     | 174.3       | 198.5         | 45.9           | 418.7    |
| Operating income                                                    | 71.6        | 75.6          | 17.2           | 164.4    |
| Non-operating (income) and expenses:                                |             |               |                |          |
| Investment and other (income) loss                                  | 0.6         | (2.6)         | (1.5)          | (3.5)    |
| Income from equity method investments                               | (0.8)       | (16.3)        | (1.9)          | (19.0)   |
| Investment (income) loss from Affiliate investments in partnerships | 0.1         | 0.2           | 4.2            | 4.5      |
| Interest expense                                                    | 15.2        | 22.4          | 4.9            | 42.5     |
|                                                                     | 15.1        | 3.7           | 5.7            | 24.5     |
| Income before income taxes                                          | 56.5        | 71.9          | 11.5           | 139.9    |
| Income taxes                                                        | 13.0        | 12.9          | 3.0            | 28.9     |
| Net income                                                          | 43.5        | 59.0          | 8.5            | 111.0    |
| Net income (non-controlling interests)                              | (25.8)      | (39.2)        | (7.7)          | (72.7)   |
| Net (income) loss (non-controlling interests in partnerships)       | 0.1         | 0.2           | 4.1            | 4.4      |
| Net Income (controlling interest)                                   | \$ 17.8     | \$ 20.0       | \$ 4.9         | \$ 42.7  |



## AFFILIATED MANAGERS GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

| For the Six Months Ended June 30, 2011                              |             |               |                |            |
|---------------------------------------------------------------------|-------------|---------------|----------------|------------|
|                                                                     | Mutual Fund | Institutional | High Net Worth | Total      |
| Revenue                                                             | \$ 376.7    | \$ 440.9      | \$ 70.9        | \$ 888.5   |
| Operating expenses:                                                 |             |               |                |            |
| Depreciation and other amortization                                 | 8.1         | 39.5          | 4.2            | 51.8       |
| Other operating expenses                                            | 256.4       | 271.1         | 44.3           | 571.8      |
|                                                                     | 264.5       | 310.6         | 48.5           | 623.6      |
| Operating income                                                    | 112.2       | 130.3         | 22.4           | 264.9      |
| Non-operating (income) and expenses:                                |             |               |                |            |
| Investment and other (income) loss                                  | (3.5)       | (9.5)         | 10.4           | (2.6)      |
| Income from equity method investments                               | (0.5)       | (27.6)        | (2.2)          | (30.3)     |
| Investment (income) loss from Affiliate investments in partnerships |             |               |                |            |
| Interest expense                                                    | 20.8        | 28.8          | 4.4            | 54.0       |
|                                                                     | 16.8        | (8.3)         | 12.6           | 21.1       |
| Income before income taxes                                          | 95.4        | 138.6         | 9.8            | 243.8      |
| Income taxes                                                        | 22.7        | 30.3          | 0.4            | 53.4       |
| Net income                                                          | 72.7        | 108.3         | 9.4            | 190.4      |
| Net income (non-controlling interests)                              | (37.3)      | (59.7)        | (8.9)          | (105.9)    |
| Net income (non-controlling interests in partnerships)              |             |               |                |            |
| Net Income (controlling interest)                                   | \$ 35.4     | \$ 48.6       | \$ 0.5         | \$ 84.5    |
| <b>Balance Sheet Information</b>                                    |             |               |                |            |
| Total assets as of December 31, 2010                                | \$ 1,847.9  | \$ 3,009.3    | \$ 434.0       | \$ 5,291.2 |
| Total assets as of June 30, 2011                                    | \$ 1,961.3  | \$ 2,941.0    | \$ 422.7       | \$ 5,325.0 |

**17. Goodwill and Acquired Client Relationships**

The following table presents the change in goodwill during the six months ended June 30, 2011:

|                                  | Mutual Fund | Institutional | High Net Worth | Total      |
|----------------------------------|-------------|---------------|----------------|------------|
| Balance, as of December 31, 2010 | \$ 785.9    | \$ 1,083.7    | \$ 261.6       | \$ 2,131.2 |
| Purchase price adjustments       | 1.2         | (5.7)         |                | (4.5)      |
| Goodwill acquired                |             |               |                |            |
| Foreign currency translation     | 2.6         | 5.5           | 3.3            | 11.4       |
| Balance, as of June 30, 2011     | \$ 789.7    | \$ 1,083.5    | \$ 264.9       | \$ 2,138.1 |

## AFFILIATED MANAGERS GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table reflects the components of intangible assets of the Company's Affiliates that are consolidated as of December 31, 2010 and June 30, 2011:

|                                                                | December 31, 2010 |                          | June 30, 2011   |                          |
|----------------------------------------------------------------|-------------------|--------------------------|-----------------|--------------------------|
|                                                                | Carrying Amount   | Accumulated Amortization | Carrying Amount | Accumulated Amortization |
| Amortized intangible assets:                                   |                   |                          |                 |                          |
| Acquired client relationships                                  | \$ 974.8          | \$ 228.6                 | \$ 973.2        | \$ 272.8                 |
| Non-amortized intangible assets:                               |                   |                          |                 |                          |
| Acquired client relationships-mutual fund management contracts | 678.0             |                          | 684.2           |                          |
| Goodwill                                                       | 2,131.2           |                          | 2,138.1         |                          |

During the three months ended June 30, 2011, the Company completed purchase price allocations related to its 2010 business combinations. Adjustments to the Company's provisional estimates were not significant.

For the Company's Affiliates that are consolidated, definite-lived acquired client relationships are amortized over their expected useful lives. As of June 30, 2011, these relationships were being amortized over a weighted average life of approximately 10 years. The Company estimates that its consolidated annual amortization expense will be approximately \$88.5 million for the next five years, assuming no additional investments in new or existing Affiliates.

The definite-lived acquired client relationships attributable to the Company's equity method investments are amortized over their expected useful lives. As of June 30, 2011, these relationships were being amortized over approximately seven years. Amortization expense for these relationships was \$16.6 million for the six months ended June 30, 2011. Assuming no additional investments in new or existing Affiliates, the Company estimates the annual amortization expense attributable to its current equity-method Affiliates for the next five years as follows:

| Year Ending December 31, | Estimated Amortization Expense |
|--------------------------|--------------------------------|
| 2011                     | \$ 32.9                        |
| 2012                     | 32.8                           |
| 2013                     | 32.8                           |
| 2014                     | 11.3                           |
| 2015                     | 4.1                            |

**18. Affiliate Equity**

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

## AFFILIATED MANAGERS GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The current redemption value of these interests has been presented as "Redeemable non-controlling interests" on the Company's Consolidated Balance Sheets. Changes in the current redemption value are recorded to Additional paid-in capital. The following table presents the changes in Redeemable non-controlling interests during the period:

|                                                   |          |
|---------------------------------------------------|----------|
| Balance as of January 1, 2011                     | \$ 406.3 |
| Issuance of Redeemable non-controlling interest   | 48.5     |
| Repurchase of Redeemable non-controlling interest | (12.9)   |
| Changes in redemption value                       | 76.0     |
| Balance as of June 30, 2011                       | \$ 517.9 |

During the three and six months ended June 30, 2010 and 2011, 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<br>Three Months<br>Ended June 30, |         | For the<br>Six Months<br>Ended June 30, |         |
|----------------------------------------------------------------------------------------------------------|-------------------------------------------|---------|-----------------------------------------|---------|
|                                                                                                          | 2010                                      | 2011    | 2010                                    | 2011    |
| Net Income (controlling interest)                                                                        | \$ 25.2                                   | \$ 45.5 | \$ 42.7                                 | \$ 84.5 |
| Increase (decrease) in controlling interest paid-in capital from purchases and sales of Affiliate equity | (3.3)                                     | (3.4)   | (19.8)                                  | 0.4     |
| Change from Net Income (controlling interest) and net transfers with non-controlling interests           | \$ 21.9                                   | \$ 42.1 | \$ 22.9                                 | \$ 84.9 |

## 19. Comprehensive Income

A summary of comprehensive income, net of applicable taxes, is as follows:

|                                                               | For the<br>Three Months<br>Ended June 30, |          | For the Six Months<br>Ended June 30, |          |
|---------------------------------------------------------------|-------------------------------------------|----------|--------------------------------------|----------|
|                                                               | 2010                                      | 2011     | 2010                                 | 2011     |
| Net income                                                    | \$ 58.2                                   | \$ 101.0 | \$ 111.0                             | \$ 190.4 |
| Foreign currency translation adjustment                       | (16.9)                                    | 2.2      | (4.8)                                | 16.4     |
| Change in net unrealized loss on derivative securities        |                                           | (1.5)    |                                      | (0.8)    |
| Change in net unrealized gain (loss) on investment securities | (7.3)                                     | (2.2)    | 6.0                                  | (5.7)    |
| Comprehensive income                                          | 34.0                                      | 99.5     | 112.2                                | 200.3    |
| Comprehensive income (non-controlling interests)              | (33.0)                                    | (55.5)   | (68.3)                               | (105.9)  |
| Comprehensive income (loss) (controlling interest)            | \$ 1.0                                    | \$ 44.0  | \$ 43.9                              | \$ 94.4  |

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

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

|                                                        | December 31,<br>2010 | June 30,<br>2011 |
|--------------------------------------------------------|----------------------|------------------|
| Foreign currency translation adjustments               | \$ 67.9              | \$ 84.3          |
| Realized and unrealized gains on derivative securities | 3.7                  | 2.9              |
| Unrealized gain on investment securities               | 28.9                 | 23.2             |
| Accumulated other comprehensive income                 | \$ 100.5             | \$ 110.4         |

**20. Recent Accounting Developments**

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

In June 2011, the Financial Accounting Standards Board issued new guidance on the presentation of comprehensive income. This new guidance requires the components of net income and other comprehensive income to be either presented in one continuous statement, or in two separate, but consecutive statements. The new guidance does not change the items that are recognized in net income or other comprehensive income. This new guidance is effective for interim and fiscal periods beginning after December 15, 2011. Adoption of this new guidance is not expected to have a material impact on the Company's Consolidated Financial Statements.

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

**Forward-Looking Statements**

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

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

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

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

those certain other factors discussed under the caption "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2010, and in any other filings we make with the Securities and Exchange Commission from time to time.

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

Management's Discussion and Analysis should be read in conjunction with the Consolidated Financial Statements of AMG and its subsidiaries (collectively, the "Company" or "AMG") and the notes thereto contained elsewhere in this Quarterly Report on Form 10-Q.

**Executive Overview**

We are a global asset management company with equity investments in leading boutique investment management firms (our "Affiliates"). Our innovative partnership approach allows each Affiliate's management team to own significant equity in their firm while maintaining operational autonomy. Our strategy is to generate growth through the internal growth of existing Affiliates, as well as through investments in new Affiliates. In addition, we provide centralized assistance to our Affiliates in strategic matters, marketing, distribution, product development and operations.

As of June 30, 2011, we manage approximately \$350 billion in assets through our Affiliates in more than 350 investment products across a broad range of asset classes and investment styles in three principal distribution channels: Mutual Fund, Institutional and High Net Worth. We believe that our diversification across asset classes, investment styles and distribution channels helps to mitigate our

exposure to the risks created by changing market environments. The following summarizes our operations in our three principal distribution channels.

In the Mutual Fund distribution channel, our Affiliates provide advisory or sub-advisory services to mutual funds. These funds are distributed to retail and institutional clients directly and through intermediaries, including independent investment advisors, retirement plan sponsors, broker-dealers, major fund marketplaces and bank trust departments.

In the Institutional distribution channel, we offer a broad range of investment styles, including small, small/mid, mid and large capitalization value, growth equity and emerging markets. In addition, our Affiliates offer quantitative, alternative and fixed income products. Through this distribution channel, our Affiliates manage assets for foundations and endowments, defined benefit and defined contribution plans for corporations and municipalities, and Taft-Hartley plans, with disciplined and focused investment styles that address the specialized needs of institutional clients.

The High Net Worth distribution channel is comprised broadly of two principal client groups. The first group consists principally of direct relationships with high net worth individuals and families and charitable foundations. For these clients, our Affiliates provide investment management or customized investment counseling and fiduciary services. The second group consists of individual managed account client relationships established through intermediaries, which are generally brokerage firms or other sponsors. Our Affiliates provide investment management services through more than 100 managed account and wrap programs.

In June 2011, we announced the formation of AMG Wealth Partners, a subsidiary focused on applying our innovative partnership approach to investments in boutique wealth management firms.

#### *Our Structure and Relationship with Affiliates*

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

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

In most cases, we own a majority of the equity interests of a firm and structure a revenue sharing arrangement, in which a percentage of revenue is allocated for use by management of that Affiliate in paying operating expenses of the Affiliate, including salaries and bonuses. We call this the "Operating Allocation." The portion of each Affiliate's revenue that is allocated to the owners of that Affiliate (including us) is called the "Owners' Allocation." Each Affiliate allocates its Owners' Allocation to its

managers and to us generally in proportion to their and our respective ownership interests in that Affiliate.

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

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

Our minority investments are also structured to align our interests with those of the Affiliate's management through shared equity ownership, as well as to preserve the Affiliate's entrepreneurial culture and independence by maintaining the Affiliate's operational autonomy. In cases where we hold a minority investment, the revenue sharing arrangement generally allocates a percentage of the Affiliate's revenue to us. The remaining revenue is used to pay operating expenses and profit distributions to the other owners. Generally where we own a minority investment, we are required to use the equity method of accounting. Consistent with this method, we have not consolidated the operating results of these firms (including their revenue) in our Consolidated Statements of Income. Our share of these firms' profits (net of intangible amortization) is reported in "Income from equity method investments," and is therefore reflected in our Net Income and EBITDA. As a consequence, increases or decreases in these firms' assets under management (\$85.5 billion as of June 30, 2011 and included in our reported assets under management) will not affect reported revenue in the same manner as changes in assets under management at our other Affiliates.

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

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

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## Financial Results

The table below summarizes our financial highlights:

| (in millions, except as noted and per share data) | For the Three Months Ended June 30, |          |          | For the Six Months Ended June 30, |          |          |
|---------------------------------------------------|-------------------------------------|----------|----------|-----------------------------------|----------|----------|
|                                                   | 2010                                | 2011     | % Change | 2010                              | 2011     | % Change |
| Assets under Management (in billions)             | \$ 249.0                            | \$ 348.4 | 40%      | \$ 249.0                          | \$ 348.4 | 40%      |
| Revenue                                           | 332.1                               | 462.3    | 39%      | 583.1                             | 888.5    | 52%      |
| Net Income (controlling interest)                 | 25.2                                | 45.5     | 81%      | 42.7                              | 84.5     | 98%      |
| Earnings per share diluted                        | 0.53                                | 0.85     | 60%      | 0.92                              | 1.59     | 73%      |
| Economic Net Income <sup>(1)</sup>                | 63.8                                | 91.3     | 43%      | 114.6                             | 176.3    | 54%      |
| Economic Earnings per share <sup>(1)</sup>        | 1.35                                | 1.71     | 27%      | 2.49                              | 3.31     | 33%      |
| EBITDA <sup>(2)</sup>                             | 81.7                                | 123.8    | 52%      | 150.0                             | 242.0    | 61%      |

(1) Our use of Economic Net Income and Economic earnings per share, including a reconciliation of Economic Net Income to Net Income, is discussed in "Supplemental Performance Measures" on page 36.

(2) Our use of EBITDA, including a reconciliation to cash flow from operations, is discussed in greater detail in "Supplemental Liquidity Measure" on page 38.

During the twelve months ended June 30, 2011, global equity market returns continued to improve; the MSCI EAFE and S&P 500 realized increases of 30.9% and 30.7%, respectively. Our total assets under management grew to \$348.4 billion at June 30, 2011, an increase of approximately 40% over June 30, 2010. The growth in our assets under management was the result of investment performance (\$61.5 billion), organic growth of our Affiliates from net client cash flows (\$24.1 billion) and our new investment in Trilogy Global Advisors (\$15.2 billion).

## Diversification of Assets under Management

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

| (in billions)              | December 31, 2010       |                     | June 30, 2011           |                     |
|----------------------------|-------------------------|---------------------|-------------------------|---------------------|
|                            | Assets under Management | Percentage of Total | Assets under Management | Percentage of Total |
| <b>Asset Class:</b>        |                         |                     |                         |                     |
| Equity <sup>(1)</sup>      | \$ 220.4                | 69%                 | \$ 234.5                | 67%                 |
| Alternative <sup>(2)</sup> | 65.3                    | 20%                 | 77.1                    | 22%                 |
| Fixed Income               | 34.3                    | 11%                 | 36.8                    | 11%                 |
| <b>Total</b>               | <b>\$ 320.0</b>         | <b>100%</b>         | <b>\$ 348.4</b>         | <b>100%</b>         |

## Geography:<sup>(3)</sup>

|                      |                 |             |                 |             |
|----------------------|-----------------|-------------|-----------------|-------------|
| Domestic             | \$ 110.5        | 34%         | \$ 116.6        | 33%         |
| Global/International | 169.1           | 53%         | 188.1           | 54%         |
| Emerging Markets     | 40.4            | 13%         | 43.7            | 13%         |
| <b>Total</b>         | <b>\$ 320.0</b> | <b>100%</b> | <b>\$ 348.4</b> | <b>100%</b> |

(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.





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(3)

The geography of a particular investment product describes the general location of its investment holdings.

Our assets under management by asset class increased during the three months ended June 30, 2011 principally as a result of investment performance as well as organic growth from net client cash flows in our Alternative (\$7.9 billion) and Equity asset classes (\$5.5 billion). The geographic breakdown of our assets under management also benefitted from investment performance and net client cash flows in Global/International (\$9.4 billion) and Emerging Markets (\$3.2 billion).

### Results of Operations

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

### Assets under Management

#### Statement of Changes-Quarter to Date

| (in billions)          | Mutual Fund | Institutional | High Net Worth | Total    |
|------------------------|-------------|---------------|----------------|----------|
| March 31, 2011         | \$ 90.6     | \$ 212.7      | \$ 36.5        | \$ 339.8 |
| Client cash inflows    | 7.6         | 14.6          | 1.9            | 24.1     |
| Client cash outflows   | (7.9)       | (7.2)         | (1.5)          | (16.6)   |
| Net client cash flows  | (0.3)       | 7.4           | 0.4            | 7.5      |
| Investment performance | (0.3)       | 0.8           | 0.6            | 1.1      |
| June 30, 2011          | \$ 90.0     | \$ 220.9      | \$ 37.5        | \$ 348.4 |

#### Statement of Changes-Year to Date

| (in billions)          | Mutual Fund | Institutional | High Net Worth | Total    |
|------------------------|-------------|---------------|----------------|----------|
| December 31, 2010      | \$ 85.2     | \$ 200.1      | \$ 34.7        | \$ 320.0 |
| Client cash inflows    | 14.6        | 27.4          | 3.5            | 45.5     |
| Client cash outflows   | (12.7)      | (15.7)        | (3.1)          | (31.5)   |
| Net client cash flows  | 1.9         | 11.7          | 0.4            | 14.0     |
| Other <sup>(1)</sup>   | (0.2)       |               |                | (0.2)    |
| Investment performance | 3.1         | 9.1           | 2.4            | 14.6     |
| June 30, 2011          | \$ 90.0     | \$ 220.9      | \$ 37.5        | \$ 348.4 |

(1)

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

As shown in the assets under management table above, client cash inflows totaled \$45.5 billion while client cash outflows totaled \$31.5 billion for the six months ended June 30, 2011. Client flows for the six months ended June 30, 2011 occurred across a broad range of product offerings in each of our distribution channels, with no individual cash inflow or outflow having a material impact on our revenue or expenses.

The operating segment analysis presented in the following table is based on average assets under management. For the Mutual Fund distribution channel, average assets under management represent an average of the daily net assets under management. For the Institutional and High Net Worth distribution channels, average assets under management reflect the billing patterns of particular client accounts. For example,

assets under management for an account that bills in advance is presented in

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the table on the basis of beginning of period assets under management while an account that bills in arrears is reflected on the basis of end of period assets under management. We believe that this analysis more closely correlates to the billing cycle of each distribution channel and, as such, provides a more meaningful relationship to revenue.

|                                                                                | For the Three<br>Months Ended<br>June 30, |          |          | For the Six<br>Months Ended<br>June 30, |          |          |
|--------------------------------------------------------------------------------|-------------------------------------------|----------|----------|-----------------------------------------|----------|----------|
| <i>(dollars in<br/>millions, except<br/>as noted)</i>                          | 2010                                      | 2011     | % Change | 2010                                    | 2011     | % Change |
| <b>Average assets<br/>under<br/>management<br/>(in billions)<sup>(1)</sup></b> |                                           |          |          |                                         |          |          |
| Mutual Fund                                                                    | \$ 63.8                                   | \$ 91.9  | 44%      | \$ 55.5                                 | \$ 89.5  | 61%      |
| Institutional                                                                  | 134.4                                     | 217.8    | 62%      | 136.3                                   | 212.9    | 56%      |
| High Net<br>Worth                                                              | 29.7                                      | 36.9     | 24%      | 30.0                                    | 36.4     | 21%      |
| Total                                                                          | \$ 227.9                                  | \$ 346.6 | 52%      | \$ 221.8                                | \$ 338.8 | 53%      |
| <b>Revenue</b>                                                                 |                                           |          |          |                                         |          |          |
| Mutual Fund                                                                    | \$ 148.0                                  | \$ 192.5 | 30%      | \$ 245.9                                | \$ 376.7 | 53%      |
| Institutional                                                                  | 152.3                                     | 233.9    | 54%      | 274.1                                   | 440.9    | 61%      |
| High Net<br>Worth                                                              | 31.8                                      | 35.9     | 13%      | 63.1                                    | 70.9     | 12%      |
| Total                                                                          | \$ 332.1                                  | \$ 462.3 | 39%      | \$ 583.1                                | \$ 888.5 | 52%      |
| <b>Net Income<br/>(controlling<br/>interest)</b>                               |                                           |          |          |                                         |          |          |
| Mutual Fund                                                                    | \$ 10.3                                   | \$ 18.8  | 83%      | \$ 17.8                                 | \$ 35.4  | 99%      |
| Institutional                                                                  | 12.3                                      | 30.2     | 146%     | 20.0                                    | 48.6     | 143%     |
| High Net<br>Worth <sup>(2)</sup>                                               | 2.6                                       | (3.5)    | (235%)   | 4.9                                     | 0.5      | (90%)    |
| Total                                                                          | \$ 25.2                                   | \$ 45.5  | 81%      | \$ 42.7                                 | \$ 84.5  | 98%      |
| <b>EBITDA<sup>(3)</sup></b>                                                    |                                           |          |          |                                         |          |          |
| Mutual Fund                                                                    | \$ 27.1                                   | \$ 44.4  | 64%      | \$ 47.9                                 | \$ 82.9  | 73%      |
| Institutional                                                                  | 45.7                                      | 80.0     | 75%      | 83.9                                    | 148.9    | 77%      |
| High Net<br>Worth <sup>(2)</sup>                                               | 8.9                                       | (0.6)    | (107%)   | 18.2                                    | 10.2     | (44%)    |
| Total                                                                          | \$ 81.7                                   | \$ 123.8 | 52%      | \$ 150.0                                | \$ 242.0 | 61%      |

(1)

As described above, our average assets under management considers balances used to bill revenue during the reporting period. These amounts also include assets managed by firms whose financial results are not consolidated (\$55.1 billion and \$81.6 billion for the three months ended June 30, 2010 and 2011, respectively and \$56.3 billion and \$78.8 billion for the six months ended June 30, 2010 and 2011, respectively). Assets under management attributable to any investments in new Affiliates are included on a weighted average basis for the period from the closing date of the respective investment.

(2)

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During the three months ended June 30, 2011, we determined that the value of a cost method investment had been reduced to zero, and recorded a \$12.8 million write-down in investment and other income which was allocated to our High Net Worth distribution channel.

(3)

EBITDA represents earnings before interest expense, income taxes, depreciation and amortization. Our use of EBITDA, including reconciliation to cash flow from operations, is described in greater detail in "Liquidity and Capital Resources Supplemental Liquidity Measure" on page 38. For purposes of our distribution channel operating results, expenses not incurred directly by Affiliates have been allocated based on the proportion of aggregate cash flow distributions reported by each Affiliate in the particular distribution channel.

## ***Revenue***

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

Our total revenue increased \$130.2 million (or 39%) in the three months ended June 30, 2011, as compared to the three months ended June 30, 2010, primarily from a 52% increase in average assets under management, partially offset by a decline in performance fees from our consolidated Affiliates. The increase in average assets under management resulted from positive investment performance, net client cash flows and our 2010 investments in new Affiliates. Consolidated performance fees declined \$12.8 million to \$18.1 million (or 41%) for the three months ended June 30, 2011, as compared to the three months ended June 30, 2010.

Our total revenue increased \$305.4 million (or 52%) in the six months ended June 30, 2011, as compared to the six months ended June 30, 2010, primarily from a 53% increase in average assets under management. This increase in average assets under management resulted from positive investment performance, net client cash flows and our 2010 investments in new Affiliates. Consolidated performance fees declined \$11.4 million to \$22.3 million (or 34%) for the six months ended June 30, 2011, as compared to the six months ended June 30, 2010.

See page 34 for disclosure of performance fees from our equity method investments.

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

### ***Mutual Fund Distribution Channel***

Our revenue in the Mutual Fund distribution channel increased \$44.5 million (or 30%) in the three months ended June 30, 2011 as compared to the three months ended June 30, 2010, primarily from a 44% increase in average assets under management, and revenue increased \$130.8 million (or 53%) in the six months ended June 30, 2011 as compared to the six months ended June 30, 2010, primarily from a 61% increase in average assets under management. These increases in average assets under management resulted principally from positive investment performance, net client cash flows and our 2010 investments in new Affiliates.

### ***Institutional Distribution Channel***

Our revenue in the Institutional distribution channel increased \$81.6 million (or 54%) in the three months ended June 30, 2011, as compared to the three months ended June 30, 2010, from a 62% increase in average assets under management and our investments in new Affiliates which realize comparatively higher fee rates, offset by a decline in performance fees. The increase in average assets under management resulted principally from positive investment performance, net client cash flows and our 2010 investments in new Affiliates. Unrelated to the change in assets under management, consolidated performance fees in this channel decreased \$12.8 million to \$18.1 million (or 41%) in the three months ended June 30, 2011, as compared to the three months ended June 30, 2010.

Our revenue increased \$166.8 million (or 61%) in the six months ended June 30, 2011 as compared to the six months ended June 30, 2010, from a 56% increase in average assets under management and our investments in new Affiliates which realize comparatively higher fee rates, offset by a decline in performance fees. The increase in average assets under management resulted principally from positive investment performance, net client cash flows and our 2010 investments in new Affiliates. Unrelated to the change in assets under management, consolidated performance fees in this channel

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decreased \$11.6 million to \$22.1 million (or 34%) in the six months ended June 30, 2011, as compared to the six months ended June 30, 2010.

### *High Net Worth Distribution Channel*

Our revenue in the High Net Worth distribution channel increased \$4.1 million (or 13%) in the three months ended June 30, 2011 as compared to the three months ended June 30, 2010, primarily from a 24% increase in average assets under management, and revenue increased \$7.8 million (or 12%) in the six months ended June 30, 2011 as compared to the six months ended June 30, 2010, primarily from a 21% increase in average assets under management. These increases in average assets under management resulted principally from investment performance.

### *Operating Expenses*

The following table summarizes our consolidated operating expenses:

| <i>(dollars in millions)</i>        | For the<br>Three Months<br>Ended June 30, |          |          | For the<br>Six Months<br>Ended June 30, |          |          |
|-------------------------------------|-------------------------------------------|----------|----------|-----------------------------------------|----------|----------|
|                                     | 2010                                      | 2011     | % Change | 2010                                    | 2011     | % Change |
| Compensation and related expenses   | \$ 142.7                                  | \$ 196.5 | 38%      | \$ 262.0                                | \$ 376.0 | 44%      |
| Selling, general and administrative | 72.1                                      | 90.6     | 26%      | 117.4                                   | 178.1    | 52%      |
| Amortization of intangible assets   | 9.6                                       | 22.1     | 130%     | 18.5                                    | 44.2     | 139%     |
| Depreciation and other amortization | 3.4                                       | 3.8      | 12%      | 6.4                                     | 7.6      | 19%      |
| Other operating expenses            | 8.5                                       | 9.3      | 9%       | 14.4                                    | 17.7     | 23%      |
| Total operating expenses            | \$ 236.3                                  | \$ 322.3 | 36%      | \$ 418.7                                | \$ 623.6 | 49%      |

The substantial portion of our operating expenses is incurred by our Affiliates, the majority of which is incurred by Affiliates with revenue sharing arrangements. For Affiliates with revenue sharing arrangements, an Affiliate's Operating Allocation percentage generally determines its operating expenses. Accordingly, our compensation expense is impacted by increases or decreases in each Affiliate's revenue and the corresponding increases or decreases in each Affiliate's respective Operating Allocation. During the three and six months ended June 30, 2011, approximately \$109.3 million and \$200.7 million (or 56% and 53%), respectively, of our consolidated compensation expense was attributable to our Affiliate management partners. The percentage of revenue allocated to operating expenses varies from one Affiliate to another and may also vary within an Affiliate depending on the source or amount of revenue. As a result, changes in our aggregate revenue may not impact our consolidated operating expenses to the same degree.

Compensation and related expenses increased 38% and 44% in the three and six months ended June 30, 2011, as compared to the three and six months ended June 30, 2010, respectively, primarily as a result of increases in aggregate Affiliate expenses of \$27.0 million and \$68.6 million in the three and six months ended June 30, 2011 from new Affiliate investments, as compared to the three and six months ended June 30, 2010, respectively. These increases were also attributable to the relationship between revenue and operating expenses at extant Affiliates, which experienced increases in revenue, and accordingly, reported higher compensation expenses.

Selling, general and administrative expenses increased 26% and 52% in the three and six months ended June 30, 2011, as compared to the three and six months ended June 30, 2010, respectively. These increases resulted principally from increases in aggregate Affiliate expenses of \$12.7 million and \$40.7 million from new Affiliate investments in the three and six months ended June 30, 2011, as compared to the three and six months ended June 30, 2010, respectively. These increases were also attributable to increases in sub-advisory and distribution expenses attributable to increases in assets

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under management at our Affiliates in the Mutual Fund distribution channel. These increases were partially offset by decreases in acquisition-related professional fees of \$5.4 million and \$9.9 million in the three and six months ended June 30, 2011, as compared to the three and six months ended June 30, 2010, respectively.

Amortization of intangible assets increased 130% and 139% in the three and six months ended June 30, 2011, as compared to the three and six months ended June 30, 2010, respectively. These increases were principally attributable to increases in definite-lived intangible assets resulting from new Affiliate investments.

Depreciation and other amortization increased 12% and 19% in the three and six months ended June 30, 2011, as compared to the three and six months ended June 30, 2010, principally attributable to increases in aggregate Affiliate expenses from new Affiliate investments.

Other operating expenses increased 9% and 23% in the three and six months ended June 30, 2011, as compared to the three and six months ended June 30, 2010, respectively. These increases were principally attributable to increases in aggregate Affiliate expenses of \$2.1 million and \$4.7 million from new Affiliate investments in the three and six months ended June 30, 2011, as compared to the three and six months ended June 30, 2010, respectively. These increases were also attributable to increase in costs associated with our global distribution initiatives. These increases were partially offset by a \$2.0 million loss realized on the transfer of Affiliate interests in the three months ended June 30, 2010, which did not recur in the three months ended June 30, 2011.

### **Other Income Statement Data**

The following table summarizes other income statement data:

| <i>(dollars in millions)</i>                               | For the<br>Three Months<br>Ended June 30, |         |          | For the<br>Six Months<br>Ended June 30, |         |          |
|------------------------------------------------------------|-------------------------------------------|---------|----------|-----------------------------------------|---------|----------|
|                                                            | 2010                                      | 2011    | % Change | 2010                                    | 2011    | % Change |
| Income from equity method investments                      | \$ 9.9                                    | \$ 20.1 | 103%     | \$ 19.0                                 | \$ 30.3 | 59%      |
| Investment and other income (loss)                         | 0.7                                       | (6.1)   | n.m.(1)  | 3.5                                     | 2.6     | (26%)    |
| Investment loss from Affiliate investments in partnerships | (8.6)                                     |         | (100%)   | (4.5)                                   |         | (100%)   |
| Interest expense                                           | 16.3                                      | 18.1    | 11%      | 32.4                                    | 37.4    | 15%      |
| Imputed interest expense                                   | 6.4                                       | 8.3     | 30%      | 10.1                                    | 16.6    | 64%      |
| Income tax expense                                         | 16.9                                      | 26.6    | 57%      | 28.9                                    | 53.4    | 85%      |

(1)

Percentage change is not meaningful.

Income from equity method investments consists of our share of income from Affiliates that are accounted for under the equity method of accounting, net of any related intangible amortization. Income from equity method investments increased 103% and 59% in the three and six months ended June 30, 2011, as compared to the three and six months ended June 30, 2010, respectively, principally as a result of a \$43.1 million and \$42.1 million increase in performance fees realized during the three and six months ended June 30, 2011, as compared to the three and six months ended June 30, 2010, respectively.

Investment and other income decreased significantly in the three months ended June 30, 2011, as compared to the three months ended June 30, 2010, and decreased 26% in the six months ended June 30, 2011, as compared to the six months ended June 30, 2010, principally as a result of a write-off of a cost method investment in the three months ended June 30, 2011. These decreases were partially offset by increases in Affiliate investment earnings and foreign exchange gains of \$4.1 million and



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\$9.9 million in the three and six months ended June 30, 2011, as compared to the three and six months ended June 30, 2010, respectively.

Investment income (loss) from Affiliate investments in partnerships relates to the consolidation of certain investment partnerships in which our Affiliates are the general partner. In the third quarter of 2010, we deconsolidated certain of these partnerships. For the three and six months ended June 30, 2010, the loss from Affiliate investments in partnerships was \$8.6 million and \$4.5 million, respectively. This loss was principally attributable to investors who are unrelated to us.

Interest expense increased 11% and 15% in the three and six months ended June 30, 2011, as compared to the three and six months ended June 30, 2010, respectively, principally as a result of increased borrowings under our revolving credit facility, as well as an increase in the cost of these borrowings. In the six months ended June 30, 2011, the increase was also attributable to a \$0.8 million increase in issuance costs related to our credit facility amendment, which occurred in the first quarter of 2011.

Imputed interest expense consists of interest accretion on our senior convertible securities and our junior convertible trust preferred securities as well as the accretion of our projected contingent payment arrangements. Imputed interest expense increased 30% and 64% in the three and six months ended June 30, 2011, as compared to the three and six months ended June 30, 2010, respectively, principally as a result of increases in accretion related to our contingent payment arrangements of \$1.7 million and \$5.9 million in the three and six months ended June 30, 2011, as compared to the three and six months ended June 30, 2010, respectively.

Income taxes increased 57% and 85% in the three and six months ended June 30, 2011 as compared to the three and six months ended June 30, 2010, respectively, principally as the result of increases in Income before income taxes.

### **Net Income**

The following table summarizes Net Income:

| <i>(dollars in millions)</i>                         | For the<br>Three Months<br>Ended June 30, |          |          | For the<br>Six Months<br>Ended June 30, |          |          |
|------------------------------------------------------|-------------------------------------------|----------|----------|-----------------------------------------|----------|----------|
|                                                      | 2010                                      | 2011     | % Change | 2010                                    | 2011     | % Change |
| Net income                                           | \$ 58.2                                   | \$ 101.0 | 74%      | \$ 111.0                                | \$ 190.4 | 72%      |
| Net income (non-controlling interests)               | 41.4                                      | 55.5     | 34%      | 72.7                                    | 105.9    | 46%      |
| Net loss (non-controlling interests in partnerships) | (8.4)                                     |          | (100%)   | (4.4)                                   |          | (100%)   |
| Net Income (controlling interest)                    | 25.2                                      | 45.5     | 81%      | 42.7                                    | 84.5     | 98%      |

Net income attributable to non-controlling interests increased 34% and 46% in the three and six months ended June 30, 2011, as compared to the three and six months ended June 30, 2010, respectively, principally as a result of the previously discussed changes in revenue, which were partially offset by the increases in amortization, interest and tax expenses attributable to non-controlling interests.

Net loss (non-controlling interest in partnerships) relates to the consolidation of certain investment partnerships in which our Affiliates are the general partner. In the third quarter of 2010, we deconsolidated these partnerships. For the three and six months ended June 30, 2010, the loss from Affiliate investment partnerships attributable to the non-controlling interests was \$8.4 million and \$4.4 million, respectively.

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Net Income (controlling interest) increased 81% and 98% in the three and six months ended June 30, 2011, as compared to the three and six months ended June 30, 2010, respectively, as a result of the previously discussed increases in revenue, partially offset by increases in reported operating expenses.

### *Supplemental Performance Measures*

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

Under our Economic Net Income definition, we add to Net Income (controlling interest) amortization (including equity method amortization), deferred taxes related to intangible assets, non-cash imputed interest expense (principally related to the accounting for convertible securities and contingent payment arrangements) and Affiliate equity expense. We add back amortization attributable to acquired client relationships because this expense does not correspond to the changes in value of these assets, which do not diminish predictably over time. The portion of deferred taxes generally attributable to intangible assets (including goodwill) that we no longer amortize but which continues to generate tax deductions is added back, because we believe it is unlikely these accruals will be used to settle material tax obligations. We add back non-cash expenses relating to certain transfers of equity between Affiliate management partners, when these transfers have no dilutive effect to our shareholders.

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

In the fourth quarter of 2010, we modified our Economic Net Income definition to no longer add back Affiliate depreciation to Net Income (controlling interest). If we had applied this definition change to the three and six months ended June 30, 2010, Economic Net Income would have been \$61.5 million and \$110.4 million and Economic earnings per share would have been \$1.30 and \$2.40, as compared to \$63.8 million and \$114.6 million and \$1.35 and \$2.49, respectively.

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

|                                                                    | For the<br>Three Months<br>Ended June 30, |         | For the<br>Six Months Ended<br>June 30, |          |
|--------------------------------------------------------------------|-------------------------------------------|---------|-----------------------------------------|----------|
|                                                                    | 2010                                      | 2011    | 2010                                    | 2011     |
| <i>(in millions, except shares and per share data)</i>             |                                           |         |                                         |          |
| <b>Net Income (controlling interest)</b>                           | \$ 25.2                                   | \$ 45.5 | \$ 42.7                                 | \$ 84.5  |
| Intangible amortization <sup>(1)(2)</sup>                          | 17.0                                      | 26.9    | 33.7                                    | 54.0     |
| Intangible-related deferred taxes                                  | 14.3                                      | 12.9    | 25.1                                    | 25.8     |
| Imputed interest and contingent payment adjustments <sup>(3)</sup> | 3.2                                       | 4.4     | 5.5                                     | 8.8      |
| Affiliate equity expense                                           | 1.8                                       | 1.6     | 3.5                                     | 3.2      |
| Affiliate depreciation                                             | 2.3                                       |         | 4.1                                     |          |
| <b>Economic Net Income</b>                                         | \$ 63.8                                   | \$ 91.3 | \$ 114.6                                | \$ 176.3 |
| <b>Average shares outstanding diluted</b>                          | 47.6                                      | 53.4    | 46.5                                    | 53.3     |
| Assumed issuance of senior convertible securities shares           | (0.6)                                     |         | (0.7)                                   |          |
| Assumed issuance of junior convertible securities shares           |                                           |         |                                         |          |
| Dilutive impact of senior convertible securities shares            | 0.2                                       |         | 0.2                                     |          |
| Dilutive impact of junior convertible securities shares            |                                           |         |                                         |          |
| <b>Average shares outstanding adjusted diluted</b>                 | 47.2                                      | 53.4    | 46.0                                    | 53.3     |
| <b>Economic earnings per share</b>                                 | \$ 1.35                                   | \$ 1.71 | \$ 2.49                                 | \$ 3.31  |

- (1) We are required to use the equity method of accounting for certain of our investments and, as such, do not separately report these Affiliates' revenues or expenses (including intangible amortization) in our income statement. Our share of these investments' amortization, \$8.1 million and \$8.2 million for the three months ended June 30, 2010 and 2011, respectively, and \$16.2 million and \$16.6 million for the six months ended June 30, 2010 and 2011, respectively, is reported in "Income from equity method investments."
- (2) Our reported intangible amortization, \$9.6 million and \$22.1 million for the three months ended June 30, 2010 and 2011, respectively, includes \$0.7 million and \$3.4 million, respectively, of amortization attributable to our non-controlling interests. Our reported intangible amortization, \$18.5 million and \$44.2 million for the six months ended June 30, 2010 and 2011, respectively, includes \$1.0 million and \$6.8 million, respectively, of amortization attributable to our non-controlling interests. The intangible amortization attributable to our non-controlling interests is not added back to Net Income (controlling interest) to measure our Economic Net Income.
- (3) Our reported imputed interest expense, \$6.4 million and \$8.3 million for the three months ended June 30, 2010 and 2011, respectively, includes \$1.3 million and \$1.5 million, respectively, of imputed interest attributable to our non-controlling interests. Our reported imputed interest expense, \$10.1 million and \$16.6 million for the six months ended June 30, 2010 and 2011, respectively, includes \$1.3 million and \$2.9 million, respectively, of imputed interest attributable to our non-controlling interests. The imputed interest expense attributable to our non-controlling interests is not added back to Net Income (controlling interest) to measure our Economic Net Income.

Economic Net Income increased 43% and 54% in the three and six months ended June 30, 2011 as compared to the three and six months ended June 30, 2010, primarily as a result of the previously described factors that caused an increase in Net Income as well as increases in amortization and intangible-related deferred tax expenses related to our 2010 investments in new Affiliates.

## Liquidity and Capital Resources

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

| <i>(in millions)</i>                          | December 31,<br>2010 | June 30,<br>2011 |
|-----------------------------------------------|----------------------|------------------|
| <b>Balance Sheet Data</b>                     |                      |                  |
| Cash and cash equivalents                     | \$ 313.3             | \$ 311.2         |
| Senior bank debt                              | 460.0                | 295.0            |
| 2008 senior convertible notes                 | 422.1                | 428.9            |
| Junior convertible trust preferred securities | 509.9                | 511.2            |

|                       | For the<br>Three Months<br>Ended June 30, |          | For the<br>Six Months<br>Ended June 30, |          |
|-----------------------|-------------------------------------------|----------|-----------------------------------------|----------|
|                       | 2010                                      | 2011     | 2010                                    | 2011     |
| <b>Cash Flow Data</b> |                                           |          |                                         |          |
| Operating cash flow   | \$ 115.1                                  | \$ 180.2 | \$ 183.1                                | \$ 310.4 |
| Investing cash flow   | (682.9)                                   | (5.1)    | (814.8)                                 | (17.2)   |
| Financing cash flow   | 586.3                                     | (117.0)  | 593.8                                   | (297.9)  |
| EBITDA <sup>(1)</sup> | 81.7                                      | 123.8    | 150.0                                   | 242.0    |

(1) The definition of EBITDA is presented in Note 3 on page 31 and below under Supplemental Liquidity Measure.

We view our ratio of debt to EBITDA (our "internal leverage ratio") as an important gauge of our ability to service debt, make new investments and access additional capital. Consistent with industry practice, we do not consider junior trust preferred securities as debt for the purpose of determining our internal leverage ratio. We also view our leverage on a "net debt" basis by deducting from our debt balance holding company cash. At June 30, 2011, our internal leverage ratio was 1.2:1.

Under the terms of our credit facility we are required to meet two financial ratio covenants. The first of these covenants is a maximum ratio of debt to EBITDA (the "bank leverage ratio") of 3.0. The calculation of our bank leverage ratio is generally consistent with our internal leverage ratio approach. The second covenant is a minimum EBITDA to cash interest expense ratio of 3.0 (our "bank interest coverage ratio"). For the purposes of calculating these ratios, share-based compensation expense is added back to EBITDA. As of June 30, 2011, our actual bank leverage and bank interest coverage ratios were 1.5 and 8.6, respectively, and we were in full compliance with all terms of our credit facility. We have \$455 million of remaining capacity under our \$750 million credit facility and we could borrow the entire amount and remain in compliance with our credit agreement.

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

### Supplemental Liquidity Measure

As supplemental information in this Quarterly Report on Form 10-Q, we have provided information regarding our EBITDA, a non-GAAP liquidity measure. This measure is provided in addition to, but not as a substitute for, cash flow from operations. EBITDA represents earnings before interest expense, income taxes, depreciation and amortization. EBITDA, as calculated by us, may not be consistent with computations of EBITDA by other companies. As a measure of liquidity, we believe

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that EBITDA is useful as an indicator of our ability to service debt, make new investments and meet working capital requirements. We further believe that many investors use this information when analyzing the financial position of companies in the investment management industry.

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

| (in millions)                                                              | For the<br>Three Months<br>Ended June 30, |                 | For the<br>Six Months<br>Ended June 30, |                 |
|----------------------------------------------------------------------------|-------------------------------------------|-----------------|-----------------------------------------|-----------------|
|                                                                            | 2010                                      | 2011            | 2010                                    | 2011            |
| <b>Cash flow from operations</b>                                           | \$ 115.1                                  | \$ 180.2        | \$ 183.1                                | \$ 310.4        |
| Interest expense, net of non-cash items <sup>(1)</sup>                     | 14.4                                      | 16.3            | 28.6                                    | 33.0            |
| Current tax provision                                                      | 5.3                                       | 16.4            | 7.9                                     | 30.0            |
| Income from equity method investments, net of distributions <sup>(2)</sup> | 4.4                                       | 9.7             | (1.6)                                   | (36.7)          |
| Net income (non-controlling interests)                                     | (41.4)                                    | (55.5)          | (72.7)                                  | (105.9)         |
| Net loss (non-controlling interests in partnerships)                       | 8.4                                       |                 | 4.4                                     |                 |
| Changes in assets and liabilities                                          | (1.1)                                     | (14.8)          | 27.3                                    | 50.2            |
| Other non-cash adjustments <sup>(3)</sup>                                  | (23.4)                                    | (28.5)          | (27.0)                                  | (39.0)          |
| <b>EBITDA</b>                                                              | <b>\$ 81.7</b>                            | <b>\$ 123.8</b> | <b>\$ 150.0</b>                         | <b>\$ 242.0</b> |

- (1) Non-cash items represent amortization of issuance costs and imputed interest (\$8.2 million and \$10.1 million for the three months ended June 30, 2010 and 2011, respectively, and \$13.8 million and \$21.0 million for the six months ended June 30, 2010 and 2011, respectively).
- (2) Distributions from equity method investments were \$13.6 million and \$18.6 million for the three months ended June 30, 2010 and 2011, respectively, and \$36.8 million and \$83.5 million for the six months ended June 30, 2010 and 2011, respectively.
- (3) Other non-cash adjustments include stock option expenses, tax benefits from stock options and other adjustments to reconcile Net Income (controlling interest) to net cash flow from operating activities.

In the three months ended June 30, 2011, we met our cash requirements primarily through cash generated by operating activities. Our principal uses of cash in the three months ended June 30, 2011 were to make distributions to Affiliate managers and repay our senior bank debt and other liabilities. We expect that our principal uses of cash for the foreseeable future will be for investments in new and existing Affiliates, distributions to Affiliate managers, payment of principal and interest on outstanding debt, and for working capital purposes.

The following table summarizes the principal amount due at maturity of our debt obligations and convertible securities as of June 30, 2011:

| (in millions)                                 | Amount   | Maturity<br>Date | Form of<br>Repayment |
|-----------------------------------------------|----------|------------------|----------------------|
| Senior Bank Debt                              | \$ 295.0 | 2012             | (1)                  |
| 2008 Senior Convertibles Notes                | 460.0    | 2038             | (2)                  |
| Junior Convertible Trust Preferred Securities | 730.8    | 2036/2037        | (3)                  |

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



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- (3) Settled in cash or common stock (or a combination thereof) at our election if the holders exercise their conversion rights.

### **Senior Bank Debt**

Under the credit facility, we pay interest based on a LIBOR rate or the prime rate (plus an applicable spread, which varies depending on our credit rating). Subject to the agreement of lenders to provide additional commitments, we have the option to increase the credit facility by up to \$150 million. The credit facility is unsecured and contains financial covenants with respect to leverage and interest coverage and customary affirmative and negative covenants, including limitations on indebtedness, liens, cash dividends and fundamental corporate changes. As of June 30, 2011, we had \$295.0 million outstanding under the credit facility.

### **Convertible Securities**

At June 30, 2011, we have one senior convertible security outstanding ("2008 senior convertible notes") and two junior convertible trust preferred securities outstanding, one issued in 2006 (the "2006 junior convertible trust preferred securities") and a second issued in 2007 (the "2007 junior convertible trust preferred securities"). The principal terms of these securities are summarized below.

|                                   | <b>2008 Senior<br/>Convertible<br/>Notes</b> | <b>2007 Junior<br/>Convertible<br/>Trust Preferred<br/>Securities</b> | <b>2006 Junior<br/>Convertible<br/>Trust Preferred<br/>Securities</b> |
|-----------------------------------|----------------------------------------------|-----------------------------------------------------------------------|-----------------------------------------------------------------------|
| Issue Date                        | August 2008                                  | October 2007                                                          | April 2006                                                            |
| Maturity Date                     | August 2038                                  | October 2037                                                          | April 2036                                                            |
| Next Potential Put Date           | August 2013                                  | N/A                                                                   | N/A                                                                   |
| Par Value                         | \$460.0                                      | \$430.8                                                               | \$300.0                                                               |
| Carrying Value <sup>(1)</sup>     | 428.9                                        | 297.0                                                                 | 214.2                                                                 |
| Denomination                      | 1,000                                        | 50                                                                    | 50                                                                    |
| Current Conversion Rate           | 7.959                                        | 0.250                                                                 | 0.333                                                                 |
| Current Conversion Price          | \$125.65                                     | \$200.00                                                              | \$150.00                                                              |
| Stated Coupon                     | 3.95%                                        | 5.15%                                                                 | 5.10%                                                                 |
| Coupon Frequency                  | Semi-annually                                | Quarterly                                                             | Quarterly                                                             |
| Tax Deduction Rate <sup>(2)</sup> | 9.38%                                        | 8.00%                                                                 | 7.50%                                                                 |

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

### **Derivative Instruments**

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

We have entered into interest rate swap contracts to exchange a fixed rate for the variable rate on our credit facility. These contracts expire between 2015 and 2017. Under these contracts, we will pay a weighted average fixed rate of 1.76% on a notional amount of \$100.0 million through October 2015.

Thereafter, through October 2017, we will pay a weighted average fixed rate of 2.14% on a remaining notional amount of \$25 million. As of June 30, 2011, the unrealized gain (before taxes) on these contracts was \$0.7 million.

We also entered into treasury rate lock agreements with a notional value of \$100.0 million to hedge an anticipated issuance of fixed-rate debt. These contracts were settled in February 2011 for a net pre-tax gain of \$4.0 million.

#### ***Forward Equity Sale Agreement***

In July 2011, we entered into a forward equity sale agreement with two major securities firms under which we may sell shares of our common stock with an aggregate sales price of up to \$300 million, which replaced the prior agreement.

#### ***Share Repurchase Program***

Our Board of Directors has authorized share repurchase programs in recent periods. The maximum number of shares that may yet be repurchased under outstanding programs is approximately 1.6 million. The timing and amount of repurchases are determined at the discretion of our management.

#### ***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 \$50 million of Affiliate equity during the next twelve months, and, in such event, will own the cash flow associated with any equity repurchased.

#### ***Operating Cash Flow***

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

The increase in cash flows from operations for the six months ended June 30, 2011 as compared to the six months ended June 30, 2010, resulted principally from increased Net Income of \$79.4 million, an increase in amortization of intangible assets of \$25.7 million, an increase in distributions received from equity method investments of \$46.7 million, an increase in unsettled fund shares payable of \$29.2 million, partially offset by increases in unsettled fund shares receivable of \$46.5 million and prepaids and other current assets of \$22.2 million.

#### ***Investing Cash Flow***

The net cash flow used in investing activities decreased \$797.6 million for the six months ended June 30, 2011 as compared to the six months ended June 30, 2010. This was primarily the result of our investments in Pantheon and Aston during the second quarter of 2010.



### Financing Cash Flow

Net cash flows from financing activities decreased \$891.7 million for the six months ended June 30, 2011, as compared to the six months ended June 30, 2010. This was primarily a result of a decrease in net borrowings of senior bank debt of \$824.5 million, a decrease in proceeds from the settlement of forward equity sales of \$100.0 million, an increase in note payments of \$46.6 million and an increase in distributions to non-controlling interests of \$22.4 million, partially offset by an increase in repurchases of Affiliate equity of \$109.6 million.

Under past acquisition agreements, we are contingently liable, upon achievement of specified financial targets, to make payments of up to \$496.8 million through 2015. In the remainder of 2011, we expect to make total payments of approximately \$1.4 million to settle portions of these contingent obligations and we expect to repurchase approximately \$50 million of interests in existing Affiliates during the next twelve months.

Borrowings available under our credit facility are sufficient to support our cash flow needs for the foreseeable future.

### Contractual Obligations

The following table summarizes our contractual obligations as of June 30, 2011:

| Contractual Obligations<br>(in millions)      | Total             | Payments Due         |                 |                 |                   |
|-----------------------------------------------|-------------------|----------------------|-----------------|-----------------|-------------------|
|                                               |                   | Remainder<br>of 2011 | 2012-2013       | 2014-2015       | Thereafter        |
| Senior bank debt                              | \$ 295.0          | \$                   | \$              | \$ 295.0        | \$                |
| Senior convertible securities <sup>(1)</sup>  | 959.6             | 9.1                  | 36.3            | 36.3            | 877.9             |
| Junior convertible trust preferred securities | 1,689.8           | 18.5                 | 74.1            | 74.1            | 1,523.1           |
| Leases                                        | 126.8             | 12.8                 | 44.8            | 32.7            | 36.5              |
| Other liabilities <sup>(2)</sup>              | 55.4              | 17.1                 |                 |                 | 38.3              |
| <b>Total Contractual Obligations</b>          | <b>\$ 3,126.6</b> | <b>\$ 57.5</b>       | <b>\$ 155.2</b> | <b>\$ 438.1</b> | <b>\$ 2,475.8</b> |

### Contingent Obligations

|                                               |          |        |         |         |    |
|-----------------------------------------------|----------|--------|---------|---------|----|
| Contingent payment obligations <sup>(3)</sup> | \$ 126.1 | \$ 1.4 | \$ 93.2 | \$ 31.5 | \$ |
|-----------------------------------------------|----------|--------|---------|---------|----|

- (1) The timing of debt payments assumes that outstanding debt is settled for cash or common stock at the applicable maturity dates. The amounts include the cash payment of fixed interest. Holders of the 2008 convertible notes may put their interests to us for \$460 million in 2013.
- (2) Other liabilities reflect amounts payable to Affiliate managers related to our purchase of additional Affiliate equity interests and deferred purchase price payments for acquisitions. This table does not include liabilities for uncertain tax positions or commitments to co-invest in certain investment partnerships (of \$23.2 million and \$89.6 million as of June 30, 2011, respectively) as we cannot predict when such obligations will be paid.
- (3) The amount of contingent payments related to business acquisitions disclosed in the table represents our expected settlement amounts. The maximum settlement amount through 2011 is \$54.1 million and \$442.7 million in periods thereafter.

### Recent Accounting Developments

In May 2011, the Financial Accounting Standards Board issued an update to the fair value measurements and disclosures guidance. The new guidance clarifies existing fair value measurement principles and expands certain disclosure requirements, particularly for measurements categorized as

Level 3. The amendment is effective for interim and fiscal periods beginning after December 15, 2011. Adoption of this new guidance is not expected to have a material impact on our Consolidated Financial Statements.

In June 2011, the Financial Accounting Standards Board issued new guidance on the presentation of comprehensive income. This new guidance requires the components of net income and other comprehensive income to be either presented in one continuous statement, or in two separate, but consecutive statements. The new guidance does not change the items that are recognized in net income or other comprehensive income. This new guidance is effective for interim and fiscal periods beginning after December 15, 2011. Adoption of this new guidance is not expected to have a material impact on our 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 June 30, 2011. Please refer to Item 7A in our 2010 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.

The Sarbanes-Oxley Act of 2002 provides that recent business combinations may be excluded from internal controls assessment; consequently, management will include Pantheon Ventures and Trilogy Global Advisors in our assessment of internal control over financial reporting as of December 31, 2011.

**PART II OTHER INFORMATION**

**Item 6. Exhibits**

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

**SIGNATURES**

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

AFFILIATED MANAGERS GROUP, INC.  
(Registrant)

August 9, 2011

/s/ JAY C. HORGEN

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

| <b>Exhibit<br/>No.</b> | <b>Description</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 10.1                   | Distribution Agency Agreement, dated July 26, 2011, by and between the Company, Merrill Lynch, Pierce, Fenner & Smith Incorporated and Bank of America, N.A.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| 10.2                   | Form of Confirmation Letter Agreement, dated July 26, 2011, by and between the Company and Bank of America, N.A.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| 10.3                   | Distribution Agency Agreement, dated July 26, 2011, by and between the Company, Deutsche Bank Securities Inc. and Deutsche Bank AG, London Branch.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| 10.4                   | Form of Confirmation Letter Agreement, dated July 26, 2011, by and between the Company, Deutsche Bank Securities Inc. and Deutsche Bank AG, London Branch.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| 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 June 30, 2011 are furnished herewith, formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Statements of Income for the three month periods ended June 30, 2011 and 2010, (ii) the Consolidated Balance Sheets at June 30, 2011 and December 31, 2010, (iii) the Consolidated Statement of Equity for the three month period ended June 30, 2011, (iv) the Consolidated Statements of Cash Flows for the three month periods ended June 30, 2011 and 2010, 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 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

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