

AFFILIATED MANAGERS GROUP INC  
Form 10-Q  
May 07, 2013

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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 March 31, 2013

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 52,737,737 shares of the registrant's common stock outstanding on May 1, 2013.

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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<br>Ended March 31, |          |
|--|--|----------|
|  | 2012                                       | 2013     |
| Revenue  | \$ 417.7                                   | \$ 502.2 |
| Operating expenses:  |  |          |
| Compensation and related expenses                            | 181.1                                      | 214.5    |
| Selling, general and administrative                          | 85.0                                       | 92.3     |
| Intangible amortization and impairments                      | 30.4                                       | 32.9     |
| Depreciation and other amortization                          | 3.4  | 3.5      |
| Other operating expenses                                     | 9.0  | 8.5      |
|  | 308.9                                      | 351.7    |
| Operating income   | 108.8                                      | 150.5    |
| Income from equity method investments                        | 14.5                                       | 50.6     |
| Other non-operating (income) and expenses:                   |  |          |
| Investment and other income                                  | (10.4)                                     | (4.5)    |
| Interest expense   | 18.6                                       | 24.2     |
| Imputed interest expense and contingent payment arrangements | (2.5)                                      | 14.2     |
|  | 5.7  | 33.9     |
| Income before income taxes                                   | 117.6                                      | 167.2    |
| Income taxes   | 24.6                                       | 37.5     |
| Net income   | 93.0                                       | 129.7    |
| Net income (non-controlling interests)                       | (55.6)                                     | (67.3)   |
| Net income (controlling interest)                            | \$ 37.4                                    | \$ 62.4  |
| Average shares outstanding basic                             | 51.6                                       | 52.7     |
| Average shares outstanding diluted                           | 52.9                                       | 54.2     |
| Earnings per share basic                                     | \$ 0.72                                    | \$ 1.18  |
| Earnings per share diluted                                   | \$ 0.71                                    | \$ 1.15  |

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



## AFFILIATED MANAGERS GROUP, INC.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in millions)

(unaudited)

|  | For the Three<br>Months<br>Ended March 31, |          |
|--|--|----------|
|  | 2012                                       | 2013     |
| Net income   | \$ 93.0                                    | \$ 129.7 |
| Other comprehensive income (loss):   |  |          |
| Foreign currency translation adjustment  | 14.4                                       | (22.8)   |
| Change in net realized and unrealized gain (loss) on derivative securities, net of tax | (0.1)                                      | 0.2      |
| Change in net unrealized gain on investment securities, net of tax                     | 9.1  | 1.1      |
| Other comprehensive income (loss)  | 23.4                                       | (21.5)   |
| Comprehensive income   | 116.4                                      | 108.2    |
| Comprehensive income (non-controlling interests)                                       | (57.3)                                     | (66.9)   |
| Comprehensive income (controlling interest)  | \$ 59.1                                    | \$ 41.3  |

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

## AFFILIATED MANAGERS GROUP, INC.

## CONSOLIDATED BALANCE SHEETS

(in millions)

(unaudited)

|   | December 31,<br>2012 | March 31,<br>2013 |
|---|----------------------|-------------------|
| <b>Assets</b>                                 |                      |                   |
| Current assets:                               |                      |                   |
| Cash and cash equivalents                     | \$ 430.4             | \$ 335.0          |
| Investment advisory fees receivable           | 255.5                | 256.7             |
| Investments in marketable securities          | 128.9                | 135.5             |
| Unsettled fund shares receivable              | 40.1                 | 275.9             |
| Prepaid expenses and other current assets     | 57.4                 | 61.2              |
| <b>Total current assets</b>                   | <b>912.3</b>         | <b>1,064.3</b>    |
| Fixed assets, net                             | 81.5                 | 83.1              |
| Equity method investments in Affiliates       | 1,031.3              | 984.5             |
| Acquired client relationships, net            | 1,585.5              | 1,535.4           |
| Goodwill                                      | 2,355.2              | 2,342.1           |
| Other assets                                  | 221.3                | 215.7             |
| <b>Total assets</b>                           | <b>\$ 6,187.1</b>    | <b>\$ 6,225.1</b> |
| <b>Liabilities and Equity</b>                 |                      |                   |
| Current liabilities:                          |                      |                   |
| Accounts payable and accrued liabilities      | \$ 324.7             | \$ 237.0          |
| Unsettled fund shares payable                 | 39.8                 | 279.2             |
| Payables to related party                     | 11.3                 | 23.0              |
| <b>Total current liabilities</b>              | <b>375.8</b>         | <b>539.2</b>      |
| Senior bank debt                              | 325.0                | 150.0             |
| Senior notes                                  | 340.0                | 340.0             |
| Senior convertible securities                 | 450.1                | 454.0             |
| Junior convertible trust preferred securities | 515.5                | 516.3             |
| Deferred income taxes                         | 497.1                | 503.6             |
| Other long-term liabilities                   | 164.7                | 172.0             |
| <b>Total liabilities</b>                      | <b>2,668.2</b>       | <b>2,675.1</b>    |
| Redeemable non-controlling interests          | 477.5                | 512.0             |
| Equity:                                       |                      |                   |
| Common stock                                  | 0.5                  | 0.5               |
| Additional paid-in capital                    | 868.5                | 817.7             |
| Accumulated other comprehensive income        | 79.1                 | 58.0              |
| Retained earnings                             | 1,350.7              | 1,413.1           |
|   | 2,298.8              | 2,289.3           |
| Less treasury stock, at cost                  | (214.6)              | (158.4)           |
| <b>Total stockholders' equity</b>             | <b>2,084.2</b>       | <b>2,130.9</b>    |
| Non-controlling interests                     | 957.2                | 907.1             |

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|              |         |         |
|--------------|---------|---------|
| Total equity | 3,041.4 | 3,038.0 |
|--------------|---------|---------|

|                              |            |            |
|------------------------------|------------|------------|
| Total liabilities and equity | \$ 6,187.1 | \$ 6,225.1 |
|------------------------------|------------|------------|

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 |          |            |            |               |             |            |      |       |
|---|----------------------------|----------|------------|------------|---------------|-------------|------------|------|-------|
|   | Common                     |          | Additional |            | Comprehensive |             | Treasury   | Non- | Total |
|   | Stock                      | Paid-In  | Income     | Retained   | Stock at      | controlling | Equity     |      |       |
|   |                            | Capital  | (Loss)     | Earnings   | Cost          | interests   |            |      |       |
| <b>December 31, 2012</b>                            | \$ 0.5                     | \$ 868.5 | \$ 79.1    | \$ 1,350.7 | \$ (214.6)    | \$ 957.2    | \$ 3,041.4 |      |       |
| Stock issued under option and other incentive plans |                            | (28.4)   |            |            | 56.2          |             | 27.8       |      |       |
| Tax benefit of option exercises                     |                            | 8.1      |            |            |               |             | 8.1        |      |       |
| Changes in the value of Affiliate equity and other  |                            | (41.1)   |            |            |               | 8.4         | (32.7)     |      |       |
| Share-based payment arrangements                    |                            | 10.6     |            |            |               |             | 10.6       |      |       |
| Distributions to non-controlling interests          |                            |          |            |            |               | (125.4)     | (125.4)    |      |       |
| Net income  |                            |          |            | 62.4       |               | 67.3        | 129.7      |      |       |
| Other comprehensive loss                            |                            |          | (21.1)     |            |               | (0.4)       | (21.5)     |      |       |
| <b>March 31, 2013</b>                               | \$ 0.5                     | \$ 817.7 | \$ 58.0    | \$ 1,413.1 | \$ (158.4)    | \$ 907.1    | \$ 3,038.0 |      |       |

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<br>Ended March 31, |          |
|---|--|----------|
|   | 2012                                       | 2013     |
| <b>Cash flow from operating activities:</b>                                       |  |          |
| Net income  | \$ 93.0                                    | \$ 129.7 |
| Adjustments to reconcile Net income to net cash flow from operating activities:   |  |          |
| Intangible amortization and impairments   | 30.4                                       | 32.9     |
| Amortization of issuance costs  | 1.8  | 2.5      |
| Depreciation and other amortization   | 3.4  | 3.5      |
| Deferred income tax provision   | 13.4                                       | 12.7     |
| Imputed interest expense and contingent payment arrangements                      | (2.5)                                      | 14.2     |
| Income from equity method investments, net of amortization                        | (14.5)                                     | (50.6)   |
| Distributions received from equity method investments                             | 36.8                                       | 93.9     |
| Tax benefit from exercise of stock options  | 0.4  | 0.6      |
| Share-based compensation  | 8.2  | 8.9      |
| Affiliate equity expense  | 2.2  | 5.2      |
| Other adjustments   | (6.0)                                      | 0.9      |
| Changes in assets and liabilities:  |  |          |
| (Increase) decrease in investment advisory fees receivable                        | (12.5)                                     | 3.7      |
| Increase in prepaids and other current assets                                     | (9.1)                                      | (7.4)    |
| Increase in other assets  | (0.5)                                      | (0.1)    |
| Increase in unsettled fund shares receivable                                      | (45.2)                                     | (238.4)  |
| Increase in unsettled fund shares payable   | 41.6                                       | 242.0    |
| Decrease in accounts payable, accrued liabilities and other long-term liabilities | (88.4)                                     | (52.0)   |
| Cash flow from operating activities   | 52.5                                       | 202.2    |
| <b>Cash flow from (used in) investing activities:</b>                             |  |          |
| Purchase of fixed assets  | (1.3)                                      | (4.6)    |
| Purchase of investment securities   | (9.5)                                      | (2.6)    |
| Sale of investment securities   | 12.9                                       | 0.2      |
| Cash flow from (used in) investing activities                                     | 2.1  | (7.0)    |
| <b>Cash flow used in financing activities:</b>                                    |  |          |
| Borrowings of senior bank debt  |  | 20.0     |
| Repayments of senior bank debt  |  | (195.0)  |
| Issuance of common stock  | 15.1                                       | 29.2     |
| Repurchase of common stock  | (32.7)                                     |          |
| Excess tax benefit from exercise of stock options                                 | 3.5  | 7.5      |
| Note and contingent payments  | (0.2)                                      | (37.8)   |
| Distributions to non-controlling interests  | (82.0)                                     | (125.4)  |
| Affiliate equity issuances and repurchases  | (16.9)                                     | 15.8     |
| Cash flow used in financing activities  | (113.2)                                    | (285.7)  |
| Effect of foreign exchange rate changes on cash and cash equivalents              | 2.8  | (4.9)    |
| Net decrease in cash and cash equivalents   | (55.8)                                     | (95.4)   |
| Cash and cash equivalents at beginning of period                                  | 449.5                                      | 430.4    |

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|   |          |          |
|---|----------|----------|
| <b>Cash and cash equivalents at end of period</b> | \$ 393.7 | \$ 335.0 |
|---|----------|----------|

Supplemental disclosure of non-cash financing activities:

|  |        |      |
|--|--------|------|
| Notes received for Affiliate equity sales        | \$ 1.0 | \$   |
| Payables recorded for Affiliate equity purchases | 11.2   | 12.0 |

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 ("GAAP") for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. The year-end condensed balance sheet data was derived from audited financial statements, but does not include all of the disclosures required by GAAP. 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. 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, 2012 includes additional information about AMG, its operations, financial position and accounting policies, and should be read in conjunction with this Quarterly Report on Form 10-Q.

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

**2. Recent Accounting Developments**

In February 2013, the Financial Accounting Standards Board issued an update to the guidance for reporting reclassifications out of accumulated other comprehensive income. The new guidance requires companies to present the impact of amounts reclassified from accumulated other comprehensive income and the income statement line items affected by the reclassification. The new guidance is effective for interim and fiscal periods beginning after December 15, 2012. The Company adopted this guidance in the first quarter of 2013. Adoption of this new guidance did not have a significant impact on the Company's Consolidated Financial Statements.

**3. Investments in Marketable Securities**

Investments in marketable securities at December 31, 2012 and March 31, 2013 were \$128.9 million and \$135.5 million, respectively. These investments are comprised of the Company's investments in Value Partners Group Limited, a publicly-traded asset management firm based in Hong Kong, and investments held by Affiliates.

The following is a summary of the cost, gross unrealized gains and losses and fair value of investments classified as available-for-sale and trading at December 31, 2012 and March 31, 2013:

|                   | Available-for-Sale   |                   | Trading              |                   |
|-------------------|----------------------|-------------------|----------------------|-------------------|
|                   | December 31,<br>2012 | March 31,<br>2013 | December 31,<br>2012 | March 31,<br>2013 |
| Cost              | \$ 103.2             | \$ 99.2           | \$ 10.3              | \$ 16.3           |
| Unrealized Gains  | 15.3                 | 21.1              | 6.5                  | 2.5               |
| Unrealized Losses | (3.2)                | (3.6)             | (3.2)                |                   |
| Fair Value        | \$ 115.3             | \$ 116.7          | \$ 13.6              | \$ 18.8           |

## AFFILIATED MANAGERS GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

|                    | Available-for-Sale<br>For the Three Months<br>Ended March 31, |        | Trading<br>For the Three Months<br>Ended March 31, |        |
|--------------------|---|--------|--|--------|
|                    | 2012  | 2013   | 2012   | 2013   |
| Gains              | \$  | \$ 0.2 | \$ 0.5   | \$ 0.1 |
| Losses             |   |        | (0.3)  |        |
| Net realized gains | \$  | \$ 0.2 | \$ 0.2   | \$ 0.1 |

#### 4. 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:

| Category of Investment     | December 31, 2012<br>Carrying Value |                                    | March 31, 2013<br>Carrying Value    |                                    |
|----------------------------|-------------------------------------|------------------------------------|-------------------------------------|------------------------------------|
|                            | Unconsolidated<br>VIE Net<br>Assets | Maximum Exposure<br>and<br>to Loss | Unconsolidated<br>VIE Net<br>Assets | Maximum Exposure<br>and<br>to Loss |
| Sponsored investment funds | \$ 7,186.9                          | \$ 0.8                             | \$ 8,527.3                          | \$ 1.3                             |
| Trust preferred vehicles   | 9.0                                 | 9.0                                | 9.0                                 | 9.0                                |

#### 5. Long-Term Debt

##### *Senior Bank Debt*

The Company entered into a \$1.25 billion senior unsecured revolving credit facility in April 2013 (the "new credit facility"), the principal terms of which are similar to the Company's previous senior unsecured revolving credit facility. The new credit facility matures in April 2018. As of April 30, 2013, the current outstanding balance under the new credit facility is \$100.0 million.

## AFFILIATED MANAGERS GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

**6. Derivative Financial Instruments**

From time to time, the Company seeks to offset its exposure to changing interest rates under its debt financing arrangements by entering into interest rate hedging contracts.

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

| Cash Flow Hedges    | For the Three Months<br>Ended March 31, |        |
|---------------------|---|--------|
|                     | 2012                                    | 2013   |
| Interest rate swaps | \$ (0.1)                                | \$ 0.3 |

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

| Cash Flow Hedges                   | December 31, | March 31, |
|------------------------------------|--------------|-----------|
|                                    | 2012         | 2013      |
| Interest rate swaps <sup>(1)</sup> | \$ (4.0)     | \$ (3.7)  |

(1) Presented within Other long-term liabilities.

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 March 31, 2013, the Company had posted collateral of \$5.3 million related to its interest rate swap contracts.

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

**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 the amount of the liability can be reasonably estimated. Management believes that any liability in excess of these accruals upon the ultimate resolution of these matters will not have a material adverse effect on the Company.

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

In connection with a past acquisition agreement, the Company has committed to co-invest in certain investment partnerships where it serves as the general partner. As of March 31, 2013, these

## AFFILIATED MANAGERS GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

commitments totaled approximately \$73.3 million and may be called in future periods. The Company is contractually entitled to reimbursement from the prior owner for \$33.1 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 \$467.8 million through 2017. As of March 31, 2013, the Company expects to make payments of \$215.7 million (\$2.8 million in 2013) to settle these contingent obligations, including \$142.0 million related to the Company's equity method investments. The net present value of the expected payments for consolidated Affiliates totals \$43.3 million as of March 31, 2013.

**8. 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 an orderly transaction between market participants at the measurement date, utilizing a hierarchy of three different valuation techniques:

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

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

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

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

|   | December 31,<br>2012 | Fair Value Measurements |         |         |
|---|----------------------|-------------------------|---------|---------|
|   |                      | Level 1                 | Level 2 | Level 3 |
| <b>Financial Assets</b>                             |                      |                         |         |         |
| Cash equivalents                                    | \$ 13.5              | \$ 13.5                 | \$      | \$      |
| Investments in marketable securities <sup>(1)</sup> |                      |                         |         |         |
| Trading securities                                  | 13.6                 | 13.6                    |         |         |
| Available-for-sale securities                       | 115.3                | 115.3                   |         |         |
| Other investments <sup>(2)</sup>                    | 155.4                | 15.7                    | 20.8    | 118.9   |
| <b>Financial Liabilities</b>                        |                      |                         |         |         |
| Contingent payment arrangements <sup>(3)</sup>      | \$ 31.0              | \$                      | \$      | \$ 31.0 |
| Obligations to related parties <sup>(4)</sup>       | 77.8                 |                         |         | 77.8    |
| Interest rate derivatives <sup>(5)</sup>            | 4.0                  |                         | 4.0     |         |

## AFFILIATED MANAGERS GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

|   | March 31,<br>2013 | Fair Value Measurements |         |         |
|---|-------------------|-------------------------|---------|---------|
|   |                   | Level 1                 | Level 2 | Level 3 |
| <b>Financial Assets</b>                             |                   |                         |         |         |
| Cash equivalents                                    | \$ 24.8           | \$ 24.8                 | \$      | \$      |
| Investments in marketable securities <sup>(1)</sup> |                   |                         |         |         |
| Trading securities                                  | 18.8              | 18.8                    |         |         |
| Available-for-sale securities                       | 116.7             | 116.7                   |         |         |
| Other investments <sup>(2)</sup>                    | 156.4             | 13.4                    | 21.1    | 121.9   |
| <b>Financial Liabilities</b>                        |                   |                         |         |         |
| Contingent payment arrangements <sup>(3)</sup>      | \$ 40.5           | \$                      | \$      | \$ 40.5 |
| Obligations to related parties <sup>(4)</sup>       | 90.7              |                         |         | 90.7    |
| Interest rate derivatives <sup>(5)</sup>            | 3.7               |                         | 3.7     |         |

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

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

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

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

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

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

*Obligations to related parties* include agreements to repurchase Affiliate equity and liabilities offsetting certain investments which are held by the Company but economically attributable to a related party. The significant unobservable inputs that are used in the fair value measurement

of the agreements to repurchase Affiliate equity are growth and discount rates. Increases in the growth rate result in a higher obligation while an increase in the discount rate results in a lower obligation. The



## AFFILIATED MANAGERS GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

liability to a related party is measured based upon certain investments held by the Company, the fair value of which is determined using NAV one quarter in arrears.

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

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

|                                 | Valuation Techniques | Unobservable Input | Fair Value at December 31, 2012 | Range at December 31, 2012 |       | Fair Value at March 31, 2013 | Range at March 31, 2013 |       |
|---------------------------------|----------------------|--------------------|---------------------------------|----------------------------|-------|------------------------------|-------------------------|-------|
| Contingent payment arrangements | Discounted cash flow | Growth rates       | \$ 31.0                         | 6.0%                       | 12.0% | \$ 40.5                      | 5.5%                    | 11.0% |
|                                 |                      | Discount rates     |                                 | 14.0%                      | 18.0% |                              | 14.0%                   | 18.0% |
| Affiliate equity                | Discounted cash flow | Growth rates       | 9.4                             | (10.0)%                    | 17.0% | 21.4                         | (10.0)%                 | 13.5% |
|                                 |                      | Discount rates     |                                 | 15.0%                      | 24.0% |                              | 15.0%                   | 24.0% |

The following table presents the changes in Level 3 financial assets and financial liabilities for the three months ended March 31, 2012 and 2013:

| Three Months Ended              | Balance, beginning of period | Net realized gains/losses | Net unrealized gains/losses relating to instruments still held at the reporting date | Purchases and issuances | Settlements and reductions | Net transfers in and/or out of Level 3 | Balance, end of period |
|---------------------------------|------------------------------|---------------------------|--|-------------------------|----------------------------|--|------------------------|
| March 31, 2012                  | \$ 103.4                     | \$ (0.8) <sup>(1)</sup>   | \$ 2.5 <sup>(1)</sup>  | \$ 4.8                  | \$ (2.4)                   | \$                                     | \$ 107.5               |
| Contingent payment arrangements | 87.1                         |                           | (4.0) <sup>(2)</sup>   |                         |                            |  | 83.1                   |
| Obligations to related parties  | 92.0                         | (0.3) <sup>(3)</sup>      | 1.0 <sup>(3)</sup>   | 14.4                    | (29.5)                     |  | 77.6                   |

| Three Months Ended              | Balance, beginning of period | Net realized gains/losses | Net unrealized gains/losses relating to instruments still held at the reporting date | Purchases and issuances | Settlements and reductions | Net transfers in and/or out of Level 3 | Balance, end of period |
|---------------------------------|------------------------------|---------------------------|--|-------------------------|----------------------------|--|------------------------|
| March 31, 2013                  | \$ 118.9                     | \$ (0.5) <sup>(1)</sup>   | \$ 2.5 <sup>(1)</sup>  | \$ 4.9                  | \$ (3.9)                   | \$                                     | \$ 121.9               |
| Contingent payment arrangements | 31.0                         |                           | 9.5 <sup>(2)</sup>   |                         |                            |  | 40.5                   |
| Obligations to related parties  | 77.8                         | 1.3 <sup>(3)</sup>        | (0.5) <sup>(3)</sup>   | 15.2                    | (3.1)                      |  | 90.7                   |

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

(2)

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

(3)

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

It is the Company's policy to value financial assets or liabilities transferred as of the beginning of the period in which the transfer occurs. There were no significant transfers of financial assets or liabilities in the three months ended March 31, 2013. During the three months ended March 31, 2012, financial assets valued at \$2.0 million were transferred from Level 1 to Level 2.

## AFFILIATED MANAGERS GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company relies on the NAV of certain investments as their fair value. The NAVs 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, 2012 and March 31, 2013, 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, 2012 |                      | March 31, 2013 |                      |
|---|-------------------|----------------------|----------------|----------------------|
|   | Fair Value        | Unfunded Commitments | Fair Value     | Unfunded Commitments |
| Private equity fund-of-funds <sup>(1)</sup> | \$ 118.9          | \$ 75.4              | \$ 121.9       | \$ 73.3              |
| Other funds <sup>(2)</sup>                  | 68.9              |                      | 78.8           |                      |
|   | \$ 187.8          | \$ 75.4              | \$ 200.7       | \$ 73.3              |

- (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 cash, cash equivalents, advisory fees receivable, short-term investments and accounts payable and accrued liabilities approximates fair value because of the short-term nature of these instruments. The carrying value of notes receivable approximates fair value because interest rates and other terms are at market rates. The carrying value of notes payable approximates fair value principally because of the short-term nature of the notes. The carrying value of senior bank debt approximates fair value because the debt is a credit facility with variable interest based on selected short-term rates. The fair market value of the senior notes at December 31, 2012 and March 31, 2013 were \$351.8 million and \$358.9 million, respectively. The fair market value of the 2008 senior convertible notes and the junior convertible trust preferred securities at December 31, 2012 were \$510.6 million and \$719.9 million, respectively. The fair market value of the 2008 senior convertible notes and the junior convertible trust preferred securities at March 31, 2013 were \$572.1 million and \$810.9 million, respectively. The senior bank debt, senior notes, senior convertible notes and junior convertible securities are classified as Level 2 because the fair value was determined utilizing market quotes in non-active markets.

## 9. Intangible Assets

### Consolidated Affiliates

The intangible assets of our consolidated Affiliates consist of definite and indefinite-lived acquired client relationships and goodwill. Definite-lived acquired client relationships are amortized over their expected useful lives. As of March 31, 2013, these relationships were being amortized over a weighted average life of approximately eleven years. The Company recognized amortization and impairment expenses for these relationships of \$30.4 million and \$32.9 million for the three months ended March 31, 2012 and 2013, respectively. The Company estimates that its consolidated annual amortization expense will be approximately \$100.0 million for each of the next five years, assuming no

## AFFILIATED MANAGERS GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

additional investments in new or existing Affiliates. Other than changes related to foreign currency translation, there were no significant changes to goodwill or indefinite-lived acquired client relationships during the three months ended March 31, 2013.

Equity Method Investments in Affiliates

The intangible assets at our equity method Affiliates consist of definite-lived acquired client relationships and goodwill. Definite-lived acquired client relationships are amortized over their expected useful lives. As of March 31, 2013, these relationships were being amortized over a weighted average life of approximately nine years. The Company recognized amortization expense for these relationships of \$8.2 million and \$10.4 million for three months ended March 31, 2012 and 2013, respectively. Assuming no additional investments in new or existing Affiliates, the Company estimates the annual amortization expense for the next five years will be \$41.5 million in 2013, \$20.0 million in 2014 and approximately \$10.0 million in each of 2015, 2016 and 2017. Other than changes related to foreign currency translation, there were no significant changes to goodwill during the three months ended March 31, 2013.

**10. Share-Based Compensation**

The Company's Net income (controlling interest) includes compensation expense of \$5.0 million (net of income tax benefits of \$3.1 million) and \$5.5 million (net of income tax benefits of \$3.4 million) for the three months ended March 31, 2012 and 2013, respectively, related to the Company's Stock Option and Incentive, Executive Incentive, Long-Term Equity Interests and Deferred Compensation Plans. As of March 31, 2013, the Company expects to recognize compensation expense related to these share-based compensation arrangements of \$69.4 million over a weighted average period of approximately three years (assuming no forfeitures). As of March 31, 2013, no outstanding options have expiration dates prior to the end of 2013.

*Stock Options*

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

|                                 |                   | Stock Options | Weighted Average<br>Exercise Price | Weighted Average<br>Remaining<br>Contractual Life<br>(years) |
|---------------------------------|-------------------|---------------|------------------------------------|--|
| Unexercised options outstanding | December 31, 2012 | 3.8           | \$ 74.04                           |  |
| Options exercised               |                   | (0.5)         | 65.30                              |  |
| Unexercised options outstanding | March 31, 2013    | 3.3           | 75.25                              | 4.0  |
| Exercisable at March 31, 2013   |                   | 2.1           | 69.56                              | 3.6  |

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## AFFILIATED MANAGERS GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

*Restricted Stock*

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

|                |                   | Restricted<br>Stock | Weighted<br>Average<br>Grant Date<br>Value |
|----------------|-------------------|---------------------|--|
| Unvested units | December 31, 2012 | 0.4                 | \$ 84.53                                   |
| Units issued   |                   | (0.1)               | 85.63                                      |
| Unvested units | March 31, 2013    | 0.3                 | 84.49                                      |

*Long-Term Equity Interests Plan*

During the three months ended March 31, 2013, no awards were granted, forfeited or repurchased.

**11. Affiliate Equity**

The Company recognized compensation expense related to Affiliate equity of \$6.3 million (\$2.2 million attributable to the controlling interest) and \$8.3 million (\$5.2 million attributable to the controlling interest) for the three months ended March 31, 2012 and 2013, respectively.

The Company has a conditional right to call and holders of non-controlling interests have a conditional right to put their equity interests at certain intervals. The current redemption value of these interests has been presented as Redeemable non-controlling interests on the 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 December 31, 2012                   | \$ 477.5 |
| Issuance of Redeemable non-controlling interests   | 3.4      |
| Repurchase of Redeemable non-controlling interests | (12.9)   |
| Changes in redemption value                        | 44.0     |
| Balance, as of March 31, 2013                      | \$ 512.0 |

During the three months ended March 31, 2012 and 2013, the Company acquired interests from and transferred interests to Affiliate management partners. The following schedule discloses the effect of changes in the Company's ownership interest in its Affiliates on the controlling interest's equity:

|  | For the Three Months<br>Ended March 31, |         |
|--|---|---------|
|  | 2012                                    | 2013    |
| Net income (controlling interest)  | \$ 37.4                                 | \$ 62.4 |
| Increase (decrease) in controlling interest paid-in capital from purchases and sales of Affiliate equity | (6.0)                                   | (4.8)   |
| Change from Net income (controlling interest) and net transfers with non-controlling interests           | \$ 31.4                                 | \$ 57.6 |

## AFFILIATED MANAGERS GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 12. Income Taxes

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

|   | For the Three Months<br>Ended March 31, |             |
|---|---|-------------|
|   | 2012                                    | 2013        |
| <b>Controlling Interests:</b>   |   |             |
| Current tax   | \$ 8.0                                  | \$ 21.2     |
| Intangible related deferred taxes                                       | 9.9                                     | 12.0        |
| Other deferred taxes  | 2.9                                     | 0.9         |
| <b>Total controlling interests</b>                                      | <b>20.8</b>                             | <b>34.1</b> |
| <b>Non-controlling Interests:</b>                                       |   |             |
| Current tax   | \$ 3.2                                  | \$ 3.6      |
| Deferred taxes  | 0.6                                     | (0.2)       |
| <b>Total non-controlling interests</b>                                  | <b>3.8</b>                              | <b>3.4</b>  |
| Provision for income taxes  | \$ 24.6                                 | \$ 37.5     |
| Income before income taxes (controlling interest)                       | \$ 58.2                                 | \$ 96.5     |
| Effective tax rate attributable to controlling interests <sup>(1)</sup> | 35.7%                                   | 35.3%       |

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

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

|  | December 31,<br>2012 | March 31,<br>2013 |
|--|----------------------|-------------------|
| <b>Deferred Tax Assets</b>                             |                      |                   |
| State net operating loss carryforwards                 | \$ 23.9              | \$ 24.6           |
| Deferred compensation                                  | 23.9                 | 24.8              |
| Foreign tax credit carryforwards                       | 20.1                 | 15.9              |
| Tax benefit of uncertain tax positions                 | 17.6                 | 17.1              |
| Accrued expenses                                       | 6.0                  | 9.1               |
| Capital loss carryforwards                             | 1.5                  | 1.5               |
| <b>Total deferred tax assets</b>                       | <b>93.0</b>          | <b>93.0</b>       |
| Valuation allowance                                    | (21.3)               | (22.2)            |
| <b>Deferred tax assets, net of valuation allowance</b> | <b>71.7</b>          | <b>70.8</b>       |
| <b>Deferred Tax Liabilities</b>                        |                      |                   |
| Intangible asset amortization                          | \$ (238.2)           | \$ (246.8)        |
| Convertible securities interest                        | (189.2)              | (193.8)           |
| Non-deductible intangible amortization                 | (120.1)              | (113.4)           |
| Deferred revenue                                       | (18.5)               | (17.5)            |

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|                                |            |            |
|--------------------------------|------------|------------|
| Other                          | (2.8)      | (2.9)      |
| Total deferred tax liabilities | (568.8)    | (574.4)    |
| Net deferred tax liability     | \$ (497.1) | \$ (503.6) |

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## AFFILIATED MANAGERS GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

At March 31, 2013, the Company has state net operating loss carryforwards that expire over a 15-year period beginning in 2013. The Company also has foreign tax credit carryforwards that expire over a 10-year period beginning in 2013. The valuation allowances at December 31, 2012 and March 31, 2013 were principally related to the Company's projections of taxable income prior to the expiration of these state and federal carryforwards.

As of March 31, 2013, the Company carried a liability for uncertain tax positions of \$21.9 million, including \$2.2 million for interest and related charges. At March 31, 2013 this liability also included \$18.7 million for tax positions that, if recognized, would affect the Company's effective tax rate.

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

**13. Earnings Per Share**

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

|                                    | For the Three Months<br>Ended March 31, |         |
|------------------------------------|---|---------|
|                                    | 2012                                    | 2013    |
| <b>Numerator</b>                   |   |         |
| Net income (controlling interest)  | \$ 37.4                                 | \$ 62.4 |
| <b>Denominator</b>                 |   |         |
| Average shares outstanding basic   | 51.6                                    | 52.7    |
| Effect of dilutive instruments:    |   |         |
| Stock options and other awards     | 1.3                                     | 1.3     |
| Forward equity sales               |   | 0.2     |
| Average shares outstanding diluted | 52.9                                    | 54.2    |



## AFFILIATED MANAGERS GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

|   | For the Three Months<br>Ended March 31, |      |
|---|---|------|
|   | 2012                                    | 2013 |
| Stock options and other awards                | 1.2                                     | 0.0  |
| Senior convertible securities                 | 3.6                                     | 3.6  |
| Junior convertible trust preferred securities | 4.2                                     | 4.2  |

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

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.

#### 14. Comprehensive Income

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

|   | For the Three Months Ended<br>March 31, 2012 |                          |            |
|---|--|--------------------------|------------|
|   | Pre-Tax                                      | Tax Benefit<br>(Expense) | Net of Tax |
| Foreign currency translation adjustment                             | \$ 14.4                                      | \$                       | \$ 14.4    |
| Change in net realized and unrealized loss on derivative securities | (0.1)  | 0.0                      | (0.1)      |
| Change in net unrealized gain on investment securities              | 14.3   | (5.2)                    | 9.1        |
| Other comprehensive income  | \$ 28.6                                      | \$ (5.2)                 | \$ 23.4    |

|   | For the Three Months Ended<br>March 31, 2013 |                          |            |
|---|--|--------------------------|------------|
|   | Pre-Tax                                      | Tax Benefit<br>(Expense) | Net of Tax |
| Foreign currency translation adjustment                             | \$ (22.8)                                    | \$                       | \$ (22.8)  |
| Change in net realized and unrealized gain on derivative securities | 0.3  | (0.1)                    | 0.2        |
| Change in net unrealized gain on investment securities              | 1.0  | 0.1                      | 1.1        |
| Other comprehensive loss  | \$ (21.5)                                    | \$ 0.0                   | \$ (21.5)  |

## AFFILIATED MANAGERS GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

|  | Foreign<br>Currency<br>Translation<br>Adjustment | Realized and<br>Unrealized Losses<br>on Derivative<br>Securities | Unrealized<br>Gain (Loss)<br>on Investment<br>Securities | Total   |
|--|--|--|--|---------|
| Balance, as of December 31, 2012                     | \$ 76.2  | \$ (2.9)   | \$ 8.0   | \$ 81.3 |
| Other comprehensive income before reclassifications  | (22.8)   | 0.2  | 1.2  | (21.4)  |
| Amounts reclassified from other comprehensive income |  |  | (0.1)  | (0.1)   |
| Net other comprehensive income                       | (22.8)   | 0.2  | 1.1  | (21.5)  |
| Balance, as of March 31, 2013                        | \$ 53.4  | \$ (2.7)   | \$ 9.1   | \$ 59.8 |

**15. Segment Information**

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

Revenue in the Institutional distribution channel is earned from relationships with public and private client entities, including pension plans, foundations, endowments and sovereign wealth funds. Revenue in the 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 High Net Worth distribution channel is earned from relationships with ultra-high net worth individuals, families and charitable foundations.

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 have been 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

|   | Three Months Ended March 31, 2012 |             |                |          |
|---|-----------------------------------|-------------|----------------|----------|
|   | Institutional                     | Mutual Fund | High Net Worth | Total    |
| Revenue   | \$ 206.8                          | \$ 175.7    | \$ 35.2        | \$ 417.7 |
| Operating expenses:                                   |                                   |             |                |          |
| Depreciation, intangible amortization and impairments | 19.9                              | 12.0        | 1.9            | 33.8     |
| Other operating expenses                              | 129.7                             | 123.0       | 22.4           | 275.1    |
|   | 149.6                             | 135.0       | 24.3           | 308.9    |
| Operating income                                      | 57.2                              | 40.7        | 10.9           | 108.8    |
| Income from equity method investments                 | 10.5                              | 2.6         | 1.4            | 14.5     |
| Other non-operating (income) and expenses:            |                                   |             |                |          |
| Investment and other income                           | (5.1)                             | (4.0)       | (1.3)          | (10.4)   |
| Interest expense                                      | 10.9                              | 6.0         | 1.7            | 18.6     |
| Imputed interest and contingent payment arrangements  | 2.3                               | (5.1)       | 0.3            | (2.5)    |
|   | 8.1                               | (3.1)       | 0.7            | 5.7      |
| Income before income taxes                            | 59.6                              | 46.4        | 11.6           | 117.6    |
| Income taxes  | 11.8                              | 10.6        | 2.2            | 24.6     |
| Net income  | 47.8                              | 35.8        | 9.4            | 93.0     |
| Net income (non-controlling interests)                | (28.9)                            | (21.1)      | (5.6)          | (55.6)   |
| Net income (controlling interest)                     | \$ 18.9                           | \$ 14.7     | \$ 3.8         | \$ 37.4  |

|   | Three Months Ended March 31, 2013 |             |                |          |
|---|-----------------------------------|-------------|----------------|----------|
|   | Institutional                     | Mutual Fund | High Net Worth | Total    |
| Revenue   | \$ 223.8                          | \$ 227.6    | \$ 50.8        | \$ 502.2 |
| Operating expenses:                                   |                                   |             |                |          |
| Depreciation, intangible amortization and impairments | 19.6                              | 13.6        | 3.2            | 36.4     |
| Other operating expenses                              | 140.6                             | 145.3       | 29.4           | 315.3    |
|   | 160.2                             | 158.9       | 32.6           | 351.7    |
| Operating income                                      | 63.6                              | 68.7        | 18.2           | 150.5    |
| Income from equity method investments                 | 44.4                              | 3.8         | 2.4            | 50.6     |
| Other non-operating (income) and expenses:            |                                   |             |                |          |
| Investment and other income                           | (2.4)                             | (1.9)       | (0.2)          | (4.5)    |
| Interest expense                                      | 14.4                              | 7.6         | 2.2            | 24.2     |
| Imputed interest and contingent payment arrangements  | 4.4                               | 9.2         | 0.6            | 14.2     |
|   | 16.4                              | 14.9        | 2.6            | 33.9     |

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|  |            |            |          |            |
|--|------------|------------|----------|------------|
| Income before income taxes             | 91.6       | 57.6       | 18.0     | 167.2      |
| Income taxes                           | 22.1       | 11.7       | 3.7      | 37.5       |
| Net income                             | 69.5       | 45.9       | 14.3     | 129.7      |
| Net income (non-controlling interests) | (30.8)     | (28.7)     | (7.8)    | (67.3)     |
| Net income (controlling interest)      | \$ 38.7    | \$ 17.2    | \$ 6.5   | \$ 62.4    |
| Total assets as of December 31, 2012   | \$ 3,176.5 | \$ 2,354.8 | \$ 655.8 | \$ 6,187.1 |
| Total assets as of March 31, 2013      | \$ 2,953.3 | \$ 2,644.7 | \$ 627.1 | \$ 6,225.1 |

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**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, 2012, 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 a diverse group of 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 March 31, 2013, we manage \$462.5 billion in assets through our Affiliates across a broad range of asset classes and investment styles in three principal distribution channels: Institutional, Mutual Fund and High Net Worth. The following summarizes our operations in our three principal distribution channels.

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

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

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

### *Our Structure and Relationship with Affiliates*

We establish and maintain long-term partnerships with our Affiliates, believing that Affiliate management equity ownership (along with AMG's ownership) aligns our interests and provides Affiliates with a powerful incentive to continue to grow their business. We 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. Our partnership approach ensures that Affiliates maintain operational autonomy in managing their business, thereby preserving their entrepreneurial culture and independence.

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

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

### *Financial Results*

For the three months ended March 31, 2013, Net income (controlling interest) was \$62.4 million, Earnings per share diluted was \$1.15, representing a 62% increase over the prior year, and Cash flow from operations was \$202.2 million. For the three months ended March 31, 2012, Net income (controlling interest) was \$37.4 million, Earnings per share diluted was \$0.71 and Cash flow from operations was \$52.5 million.

For the three months ended March 31, 2013, Economic net income was \$124.2 million, Economic earnings per share was \$2.27, representing a 44% increase over the prior year, and EBITDA was \$175.0 million. For the three months ended March 31, 2012, Economic net income was \$83.5 million,

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Economic earnings per share was \$1.58 and EBITDA was \$114.1 million. Reconciliations of Net income to Economic net income and Cash flow from operations to EBITDA are included on pages 30 and 32, respectively.

For the twelve months ended March 31, 2013, our assets under management increased 27% to \$462.5 billion. The increase was the result of \$37.5 billion from investment performance, \$35.0 billion from organic growth from net client cash flows and \$28.0 billion from our new investments in Veritable and Yacktman.

The table below summarizes our financial highlights:

| <i>(in millions, except as noted and per share data)</i> | <b>For the Three<br/>Months Ended<br/>March 31,</b> |             |                 |
|--|---|-------------|-----------------|
|  | <b>2012</b>   | <b>2013</b> | <b>% Change</b> |
| Assets under Management (in billions)                    | \$ 363.9  | \$ 462.5    | 27%             |
| Average assets under Management (in billions)            | 350.6   | 449.3       | 28%             |
| Revenue  | 417.7   | 502.2       | 20%             |
| EBITDA <sup>(1)</sup>                                    | 114.1   | 175.0       | 53%             |
| Net income (controlling interest)                        | 37.4  | 62.4        | 67%             |
| Earnings per share diluted                               | 0.71  | 1.15        | 62%             |
| Economic net income <sup>(2)</sup>                       | 83.5  | 124.2       | 49%             |
| Economic earnings per share <sup>(2)</sup>               | 1.58  | 2.27        | 44%             |

(1) EBITDA, including a reconciliation to Cash flow from operations, is discussed in greater detail in "Supplemental Liquidity Measure" on page 31.

(2) Economic net income and Economic earnings per share, including a reconciliation of Economic net income to Net income, are discussed in "Supplemental Performance Measures" on page 29.

### *Diversification of Assets under Management*

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

| <i>(in billions)</i>           | <b>December 31, 2012</b>           |                                | <b>March 31, 2013</b>              |                                |
|--------------------------------|------------------------------------|--------------------------------|------------------------------------|--------------------------------|
|                                | <b>Assets under<br/>Management</b> | <b>Percentage<br/>of Total</b> | <b>Assets under<br/>Management</b> | <b>Percentage<br/>of Total</b> |
| <b>Asset Class</b>             |                                    |                                |                                    |                                |
| Equity <sup>(1)</sup>          | \$ 279.5                           | 65%                            | \$ 296.3                           | 64%                            |
| Alternative <sup>(2)</sup>     | 105.1                              | 24%                            | 112.6                              | 24%                            |
| Fixed Income <sup>(3)(4)</sup> | 47.2                               | 11%                            | 53.6                               | 12%                            |
| <b>Total</b>                   | <b>\$ 431.8</b>                    | <b>100%</b>                    | <b>\$ 462.5</b>                    | <b>100%</b>                    |
| <b>Geography<sup>(5)</sup></b> |                                    |                                |                                    |                                |
| Global                         | \$ 228.0                           | 53%                            | \$ 242.4                           | 52%                            |
| Domestic                       | 152.5                              | 35%                            | 166.9                              | 36%                            |
| Emerging Markets               | 51.3                               | 12%                            | 53.2                               | 12%                            |
| <b>Total</b>                   | <b>\$ 431.8</b>                    | <b>100%</b>                    | <b>\$ 462.5</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) Our Affiliates sponsor money market funds with fund assets representing less than 1% of our assets under management.
- (4) Investments in sovereign and non-sovereign debt of European countries represent less than 1% of our assets under management.
- (5) The Geography of a particular investment product describes the general location of its investment holdings.

During the three months ended March 31, 2013, on an asset class basis, we experienced organic growth from net client cash flows in Alternative of \$6.0 billion, Equity of \$4.7 billion and Fixed Income of \$1.3 billion. On a geographic basis, our Global products benefited from net client cash flows of \$8.6 billion and the Domestic and Emerging Markets products benefited from net client cash flows of \$1.6 billion and \$1.8 billion, respectively. Strong investment performance in the Domestic and Global geographic areas as well as across all asset classes also contributed to growth in the three months ended March 31, 2013.

### *Assets under Management by Operating Segment*

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

### **Statement of Changes-Quarter to Date**

| <i>(in billions)</i>   | <b>Institutional</b> | <b>Mutual Fund</b> | <b>High Net Worth</b> | <b>Total</b> |
|------------------------|----------------------|--------------------|-----------------------|--------------|
| December 31, 2012      | \$ 254.3             | \$ 121.9           | \$ 55.6               | \$ 431.8     |
| Client cash inflows    | 10.9                 | 12.1               | 3.2                   | 26.2         |
| Client cash outflows   | (5.0)                | (7.3)              | (1.9)                 | (14.2)       |
| Net client cash flows  | 5.9                  | 4.8                | 1.3                   | 12.0         |
| Investment performance | 8.9                  | 8.0                | 2.4                   | 19.3         |
| Other <sup>(1)</sup>   | (0.6)                |                    |                       | (0.6)        |
| March 31, 2013         | \$ 268.5             | \$ 134.7           | \$ 59.3               | \$ 462.5     |

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

The net flows for the three months ended March 31, 2013 occurred across a broad range of product offerings in each of our distribution channels, with no individual cash inflow or outflow having a significant impact on our revenue or expenses.

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

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

| <i>(in millions, except as noted)</i>                  | <b>For the Three<br/>Months Ended<br/>March 31,</b> |             |                 |
|--|---|-------------|-----------------|
|  | <b>2012</b>   | <b>2013</b> | <b>% Change</b> |
| <b>Average Assets under Management (in billions)</b>   |   |             |                 |
| <b><i>Including equity method Affiliates</i></b>       |   |             |                 |
| Institutional  | \$ 220.0  | \$ 262.6    | 19%             |
| Mutual Fund  | 91.1  | 129.1       | 42%             |
| High Net Worth   | 39.5  | 57.6        | 46%             |
| Total  | \$ 350.6  | \$ 449.3    | 28%             |
| <b><i>Consolidated Affiliates</i></b>                  |   |             |                 |
| Institutional  | \$ 152.8  | \$ 165.2    | 8%              |
| Mutual Fund  | 76.1  | 104.4       | 37%             |
| High Net Worth   | 28.8  | 46.9        | 63%             |
| Total  | \$ 257.7  | \$ 316.5    | 23%             |
| <b>Revenue</b>   |   |             |                 |
| Institutional  | \$ 206.8  | \$ 223.8    | 8%              |
| Mutual Fund  | 175.7   | 227.6       | 30%             |
| High Net Worth   | 35.2  | 50.8        | 44%             |
| Total  | \$ 417.7  | \$ 502.2    | 20%             |
| <b>Net income (controlling interest)<sup>(1)</sup></b> |   |             |                 |
| Institutional  | \$ 18.9   | \$ 38.7     | 105%            |
| Mutual Fund  | 14.7  | 17.2        | 17%             |
| High Net Worth   | 3.8   | 6.5         | 71%             |
| Total  | \$ 37.4   | \$ 62.4     | 67%             |
| <b>EBITDA<sup>(2)</sup></b>                            |   |             |                 |
| Institutional  | \$ 66.8   | \$ 104.1    | 56%             |
| Mutual Fund  | 37.1  | 55.0        | 48%             |
| High Net Worth   | 10.2  | 15.9        | 56%             |
| Total  | \$ 114.1  | \$ 175.0    | 53%             |

(1) During the three months ended March 31, 2012, we recognized a gain totaling \$9.9 million (\$5.0 million attributable to the controlling interest) related to certain of our contingent payment arrangements. The controlling interest portion of the gain was allocated \$0.3 million and \$4.7 million to our Institutional and Mutual Fund channels, respectively. During the three months ended March 31, 2013, we recognized a loss totaling \$8.2 million (all of which was attributable to the controlling interest) related to certain of our contingent payment arrangements. The loss was allocated \$0.8 million and \$7.4 million to our Institutional and Mutual Fund channels, respectively.

(2) EBITDA, including a reconciliation to cash flow from operations, is discussed in "Supplemental Liquidity Measure" on page 31.

## Results of Operations

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

When we hold a minority investment and are required to use the equity method of accounting, we do not consolidate the operating results of these firms (including their revenue). Our share of these firms' earnings (net of intangible amortization) is reported in Income from equity method investments and is discussed on page 27.

### *Revenue*

Our revenue is generally determined by the level of our average assets under management and the composition of our assets across our operating segments and products within our operating segments, which realize different fee rates. Our ratio of revenue to average assets under management (in total and by channel) is calculated as revenue divided by average assets under management and may change as a result of new investments, net client cash flows, performance and, to a lesser extent, changes in contractual fees. Therefore, changes in this ratio should not necessarily be viewed as an indicator of changes in contractual fee rates billed to our Affiliates' clients.

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

Our revenue increased \$84.5 million (or 20%) in the three months ended March 31, 2013 as compared to the three months ended March 31, 2012, primarily from an increase in average assets under management from our consolidated Affiliates. The increase in average assets under management resulted principally from investment performance, our new Affiliate investments in 2012 and net client cash flows.

Neither changes in the composition of our assets under management within or between our operating segments nor changes to our contractual fee rates had a significant impact on our results.

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

#### *Institutional Distribution Channel*

Our revenue in the Institutional distribution channel increased \$17.0 million (or 8%) in the three months ended March 31, 2013 as compared to the three months ended March 31, 2012, primarily from an increase in average assets under management from our consolidated Affiliates. The increase in average assets under management resulted principally from investment performance and net client cash flows.

#### *Mutual Fund Distribution Channel*

Our revenue in the Mutual Fund distribution channel increased \$51.9 million (or 30%) in the three months ended March 31, 2013 as compared to the three months ended March 31, 2012, primarily from an increase in average assets under management from our consolidated Affiliates. The increase in average assets under management resulted principally from investment performance, our new Affiliate investments in 2012 and net client cash flows.

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### *High Net Worth Distribution Channel*

Our revenue in the High Net Worth distribution channel increased \$15.6 million (or 44%) in the three months ended March 31, 2013 as compared to the three months ended March 31, 2012, primarily from an increase in average assets under management from our consolidated Affiliates, partially offset by a decline in our ratio of revenue to average assets under management. The increase in average assets under management resulted principally from our new Affiliate investments in 2012, investment performance and net client cash flows. The decline in our ratio of revenue to average assets under management resulted from changes in the composition of our assets under management within the channel, including decreases in assets under management in certain products that realize comparatively higher fee rates and increases in assets under management in certain products that realize comparatively lower fee rates.

### *Operating Expenses*

The following table summarizes our consolidated operating expenses:

| <i>(in millions)</i>                    | <b>For the Three<br/>Months Ended<br/>March 31,</b> |             |                 |
|---|---|-------------|-----------------|
|   | <b>2012</b>   | <b>2013</b> | <b>% Change</b> |
| Compensation and related expenses       | \$ 181.1  | \$ 214.5    | 18 %            |
| Selling, general and administrative     | 85.0  | 92.3        | 9 %             |
| Intangible amortization and impairments | 30.4  | 32.9        | 8 %             |
| Depreciation and other amortization     | 3.4   | 3.5         | 3 %             |
| Other operating expenses                | 9.0   | 8.5         | (6)%            |
| Total operating expenses                | \$ 308.9  | \$ 351.7    | 14 %            |

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

Compensation and related expenses increased \$33.4 million (or 18%) in the three months ended March 31, 2013, as compared to the three months ended March 31, 2012. This increase was primarily a result of increases in Affiliate expenses from new Affiliate investments in 2012 of \$14.5 million as well as from 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 \$7.3 million (or 9%) in the three months ended March 31, 2013, as compared to the three months ended March 31, 2012. This increase was primarily a result of increases in Affiliate expenses from new Affiliate investments in 2012.

Intangible amortization and impairments increased \$2.5 million (or 8%) in the three months ended March 31, 2013, as compared to the three months ended March 31, 2012. This increase was principally attributable to increases in definite-lived intangible assets resulting from new Affiliate investments in 2012.

### *Income from Equity Method Investments*

When we own a minority investment and are required to use the equity method of accounting, we only recognize our share of these Affiliates' earnings (generally calculated as a fixed percentage of

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revenue) net of intangible amortization. Accordingly, we have not consolidated these Affiliates' operating results (including their revenue). The following table summarizes our share of the profits from our equity method investments:

|                                       | <b>For the Three<br/>Months Ended<br/>March 31,</b> |             |                 |
|---------------------------------------|---|-------------|-----------------|
| <i>(in millions)</i>                  | <b>2012</b>   | <b>2013</b> | <b>% Change</b> |
| Income from equity method investments | \$ 14.5   | \$ 50.6     | 249%            |

Income from equity method Affiliates increased \$36.1 million (or 249%) in the three months ended March 31, 2013, as compared to the three months ended March 31, 2012. This increase was the result of increases in revenue, including the early realization of performance fees, as well as our additional investment in BlueMountain during 2012.

### *Other Income Statement Data*

The following table summarizes other income statement data:

|  | <b>For the Three<br/>Months Ended<br/>March 31,</b> |             |                     |
|--|---|-------------|---------------------|
| <i>(in millions)</i>   | <b>2012</b>   | <b>2013</b> | <b>% Change</b>     |
| Investment and other income                                  | \$ 10.4   | \$ 4.5      | (57)%               |
| Interest expense   | 18.6  | 24.2        | 30 %                |
| Imputed interest expense and contingent payment arrangements | (2.5)   | 14.2        | n.m. <sup>(1)</sup> |
| Income tax expense   | 24.6  | 37.5        | 52 %                |

(1) Percentage change is not meaningful.

Investment and other income decreased \$5.9 (or 57%) million in the three months ended March 31, 2013, as compared to the three months ended March 31, 2012, principally as a result of a decrease in Affiliate investment earnings.

Interest expense increased \$5.6 million (or 30%) in the three months ended March 31, 2013, as compared to the three months ended March 31, 2012. This increase was primarily as a result of the issuance of the 6.375% Senior Notes due in 2042 (the "2042 senior notes") and the 5.25% Senior Notes due in 2022 (the "2022 senior notes") in the second half of 2012.

Imputed interest expense and contingent payment arrangements consists of interest accretion on our senior convertible securities and our junior convertible trust preferred securities, as well as the accretion and revaluation of our contingent payment arrangements. Imputed interest expense and contingent payment arrangements increased \$16.7 million in the three months ended March 31, 2013, as compared to the three months ended March 31, 2012. This increase was primarily a result of an \$8.2 million loss on the revaluation of our contingent payment arrangements as compared to a \$9.9 million gain on the revaluation of our contingent payment arrangements in the three months ended March 31, 2012.

Income taxes increased \$12.9 million (or 52%) in the three months ended March 31, 2013, as compared to the three months ended March 31, 2012, principally from an increase to pre-tax earnings.

*Net Income*

The following table summarizes Net income:

| <i>(in millions)</i>                   | <b>For the Three<br/>Months Ended<br/>March 31,</b> |             |                 |
|--|---|-------------|-----------------|
|  | <b>2012</b>   | <b>2013</b> | <b>% Change</b> |
| Net income                             | \$ 93.0   | \$ 129.7    | 39%             |
| Net income (non-controlling interests) | 55.6  | 67.3        | 21%             |
| Net income (controlling interest)      | 37.4  | 62.4        | 67%             |

Net income (non-controlling interests) increased \$11.7 million (or 21%) in the three months ended March 31, 2013, as compared to the three months ended March 31, 2012, primarily as a result of the previously discussed increases in revenue and expenses.

Net income (controlling interest) increased \$25.0 million (or 67%) in the three months ended March 31, 2013, as compared to the three months ended March 31, 2012, primarily as a result of the previously discussed increases in revenue and 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 affiliated investment management firms. Economic net income and Economic earnings per share are used by our management and Board of Directors as our principal performance benchmarks, including as measures for aligning executive compensation with stockholder value. These measures are provided in addition to, but not as a substitute for, Net income (controlling interest) and Earnings per share. Economic net income and Economic earnings per share are not liquidity measures and should not be used in place of any liquidity measure calculated under accounting principles generally accepted in the U.S. ("GAAP").

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

Economic earnings per share represents Economic net income divided by the adjusted diluted average shares outstanding, 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

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when these securities are converted and we are relieved of our debt obligation. This method does not take into account any increase or decrease in our cost of capital in an assumed conversion.

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

| <i>(in millions, except per share data)</i>                         | <b>For the Three<br/>Months Ended<br/>March 31,</b> |              |
|---|---|--------------|
|   | <b>2012</b>   | <b>2013</b>  |
| Net income (controlling interest)                                   | \$ 37.4   | \$ 62.4      |
| Intangible amortization and impairments <sup>(1)</sup>              | 35.0  | 38.4         |
| Intangible-related deferred taxes                                   | 9.9   | 12.0         |
| Imputed interest and contingent payment arrangements <sup>(2)</sup> | 0.6   | 9.1          |
| Affiliate equity expense  | 0.6   | 2.3          |
| <br>Economic net income   | <br>\$ 83.5   | <br>\$ 124.2 |
| <br>Average shares outstanding diluted                              | <br>52.9  | <br>54.2     |
| Dilutive impact of senior convertible securities shares             |   | 0.5          |
| <br>Average shares outstanding adjusted diluted                     | <br>52.9  | <br>54.7     |
| <br>Economic earnings per share                                     | <br>\$ 1.58   | <br>\$ 2.27  |

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

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

| <i>(in millions)</i>                              | <b>For the Three<br/>Months Ended<br/>March 31,</b> |             |
|---|---|-------------|
|   | <b>2012</b>   | <b>2013</b> |
| Reported Intangible amortization and impairments  | \$ 30.4   | \$ 32.9     |
| Equity method amortization                        | 8.2   | 10.4        |
| Intangible amortization non-controlling interests | (3.6)   | (4.9)       |
|   | \$ 35.0   | \$ 38.4     |

- (2) Our reported Imputed interest expense and contingent payment arrangements, \$(2.5) million and \$14.2 million for the three months ended March 31, 2012 and 2013, respectively, includes \$(3.5) million of imputed interest attributable to our non-controlling interests for the three months ended March 31, 2012, an amount not added back to Net income (controlling interest) to measure our Economic net income. No imputed interest expense was attributable to our non-controlling interests in the three months ended March 31, 2013.

**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>2012 | March 31,<br>2013 |
|---|----------------------|-------------------|
| <b>Balance Sheet Data</b>                     |                      |                   |
| Cash and cash equivalents                     | \$ 430.4             | \$ 335.0          |
| Senior bank debt                              | 325.0                | 150.0             |
| Senior notes                                  | 340.0                | 340.0             |
| Senior convertible securities                 | 450.1                | 454.0             |
| Junior convertible trust preferred securities | 515.5                | 516.3             |

| <i>(in millions)</i>  | For the Three<br>Months Ended<br>March 31, |          |
|-----------------------|--|----------|
|                       | 2012                                       | 2013     |
| <b>Cash Flow Data</b> |  |          |
| Operating cash flow   | \$ 52.5                                    | \$ 202.2 |
| Investing cash flow   | 2.1  | (7.0)    |
| Financing cash flow   | (113.2)                                    | (285.7)  |
| EBITDA <sup>(1)</sup> | 114.1                                      | 175.0    |

(1)

The definition of EBITDA is presented 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 convertible 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 March 31, 2013, 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 purposes of calculating these ratios, share-based compensation expense is added back to EBITDA. As of March 31, 2013, our actual bank leverage and bank interest coverage ratios were 1.5 and 8.5, respectively, and we were in compliance with all terms of our credit facility. We have \$825.0 million of remaining capacity under our credit facility, and could borrow all such capacity and remain in compliance with our credit facility.

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).

In April 2013, we entered into a new credit facility as described in "Senior Bank Debt" on page 33.

**Supplemental Liquidity Measure**

As supplemental information, we have provided information regarding EBITDA, a non-GAAP liquidity measure. This measure is provided in addition to, but not as a substitute for, cash flow from operating activities. EBITDA represents earnings before interest expense, income taxes, depreciation



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and amortization. EBITDA, as calculated by us, may not be consistent with computations of EBITDA by other companies. As a measure of liquidity, we believe that EBITDA is useful as an indicator of our ability to service debt, make new investments and meet working capital requirements. We further believe that many investors use this information when analyzing the financial position of companies in the investment management industry.

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

| <i>(in millions)</i>   | <b>For the Three<br/>Months Ended<br/>March 31,</b> |              |
|--|---|--------------|
|  | <b>2012</b>   | <b>2013</b>  |
| Cash flow from operating activities  | \$ 52.5   | \$ 202.2     |
| Interest expense, net of non-cash items <sup>(1)</sup>                     | 16.8  | 21.7         |
| Current tax provision  | 8.0   | 21.2         |
| Income from equity method investments, net of distributions <sup>(2)</sup> | (14.1)  | (32.9)       |
| Net income (non-controlling interests)                                     | (55.6)  | (67.3)       |
| Changes in assets and liabilities  | 114.1   | 52.2         |
| Other non-cash adjustments <sup>(3)</sup>                                  | (7.6)   | (22.1)       |
| <br>EBITDA   | <br>\$ 114.1  | <br>\$ 175.0 |

- (1) Non-cash items include Amortization of issuance costs and Imputed interest and contingent payment arrangements of \$(0.7) million and \$16.7 million for the three months ended March 31, 2012 and 2013, respectively.
- (2) Distributions from equity method investments were \$36.8 million and \$93.9 million for the three months ended March 31, 2012 and 2013, respectively.
- (3) Other non-cash adjustments include share-based compensation expense, tax benefits from stock options and other adjustments to reconcile Net income (controlling interest) to net cash flow from operating activities.

In the three months ended March 31, 2013, we met our cash requirements primarily through cash generated by operating activities. Our principal uses of cash were to repay senior bank debt, make distributions to Affiliate partners, settle contingent payment obligations and repay our other liabilities. We expect that our principal uses of cash for the foreseeable future will be for investments in new and existing Affiliates, settlement of contingent payment arrangements, distributions to Affiliate partners, payment of principal and interest on outstanding debt, and for working capital purposes.

The following table summarizes the principal amount due at maturity of our debt obligations and convertible securities as of March 31, 2013:

| <i>(in millions)</i>                          | <b>Amount</b> | <b>Maturity<br/>Date</b> | <b>Form of<br/>Repayment</b> |
|---|---------------|--------------------------|------------------------------|
| Senior bank debt                              | \$ 150.0      | 2016                     | (1)                          |
| Senior notes                                  | 340.0         | 2022/2042                | (2)                          |
| Senior convertibles securities                | 460.0         | 2038                     | (3)                          |
| Junior convertible trust preferred securities | 730.8         | 2036/2037                | (4)                          |

- (1) Settled in cash. In April 2013, we entered into a new credit facility as described in "Senior Bank Debt" on page 33.
- (2) Settled in cash on or after October 15, 2015 for the 2022 senior notes and August 15, 2017 for the 2042 senior notes.
- (3)

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Settled in cash if holders exercise their August 2013, 2018, 2023, 2028 or 2033 put rights, and in cash or common stock at our election if the holders exercise their conversion rights.

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

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### **Senior Bank Debt**

We entered into a \$1.25 billion senior unsecured revolving credit facility in April 2013 (the "new credit facility"), the principal terms of which are similar to our previous senior unsecured revolving credit facility. The new credit facility matures in April 2018. As of April 30, 2013, the current outstanding balance under the new credit facility is \$100.0 million.

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

### **Senior Notes**

At March 31, 2013, we have two senior notes outstanding. The principal terms of these notes are summarized below.

|                                  | <b>2022<br/>Senior<br/>Notes</b> | <b>2042<br/>Senior<br/>Notes</b> |
|----------------------------------|----------------------------------|----------------------------------|
| Issue date                       | October 2012                     | August 2012                      |
| Maturity date                    | October 2022                     | August 2042                      |
| Potential Call Date              | October 2015                     | August 2017                      |
| Par value ( <i>in millions</i> ) | \$ 140.0                         | \$ 200.0                         |
| Call Price                       | At Par                           | At Par                           |
| Stated coupon                    | 5.25%                            | 6.375%                           |
| Coupon frequency                 | Quarterly                        | Quarterly                        |

### **Convertible Securities**

At March 31, 2013, 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<br/>Senior<br/>Convertible<br/>Notes<sup>(1)</sup></b> | <b>2007 Junior<br/>Convertible<br/>Trust Preferred<br/>Securities<sup>(2)</sup></b> | <b>2006 Junior<br/>Convertible<br/>Trust Preferred<br/>Securities<sup>(3)</sup></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 ( <i>in millions</i> )                     | \$ 460.0   | \$ 430.8  | \$ 300.0  |
| Carrying value ( <i>in millions</i> ) <sup>(4)</sup> | 454.0  | 299.9   | 216.4   |
| 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>(5)</sup>                    | 9.38%  | 8.00%   | 7.50%   |

(1)

The Company may redeem the notes (subject to the holders' rights to convert) at any time on or after August 15, 2013. The holders may require the Company to repurchase the notes in August of 2013, 2018, 2023, 2028 and 2033.

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- (2) The Company may redeem the 2007 junior convertible trust preferred securities if the closing price of the Company's common stock exceeds \$260 per share for a specified period of time.
- (3) The Company may redeem the 2006 junior convertible trust preferred securities if the closing price of the Company's common stock exceeds \$195 per share for a specified period of time.
- (4) 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.
- (5) 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 \$26.7 million. These deferred tax liabilities will be reclassified directly to stockholders' equity if the Company's common stock is trading above certain thresholds at the time of the conversion of the securities.

The 2008 senior convertible notes are convertible into a defined number of shares of our common stock upon the occurrence of certain events. Upon conversion, we may elect to pay or deliver cash, shares of common stock, or some combination thereof. The holders of the 2008 senior convertible notes may put these securities to us in August of 2013, 2018, 2023, 2028 and 2033. We may call the notes for cash at any time on or after August 15, 2013. Should either of these events occur, we currently intend to satisfy our obligations with borrowings under our credit facility.

Both the 2006 and 2007 junior convertible trust preferred securities are convertible, at any time, into a defined number of shares. Upon conversion, holders will receive cash or shares of our common stock, or a combination thereof. We can call the 2006 junior convertible trust preferred securities if the closing price of our common stock exceeds \$195 per share for a specified period of time. We can call the 2007 junior convertible trust preferred securities if the closing price of our common stock exceeds \$260 per share for a specified period of time. Holders of the 2006 and 2007 junior convertible trust preferred securities have no rights to put these securities to us.

### *Derivative Instruments*

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

We have entered into interest rate swap contracts to exchange a fixed rate for the variable rate on a portion of our credit facility. These contracts expire between 2015 and 2017. Under these contracts, we will pay a weighted average fixed rate of 1.76% on a notional amount of \$100.0 million through October 2015. Thereafter, through October 2017, we will pay a weighted average fixed rate of 2.14% on a remaining notional amount of \$25.0 million. As of March 31, 2013, the unrealized loss on these contracts was \$3.7 million.

### *Forward Equity Sale Agreement*

In 2012, we amended our forward equity agreement to increase the amount of shares of common stock we may sell to an aggregate of \$400.0 million. During 2012, we entered into contracts to sell a notional amount of \$147.2 million at an average share price of \$121.37. All contracts remain outstanding. We have the ability to settle the contracts either by delivering shares of common stock and

receiving cash or net settling for cash or shares of common stock. No additional forward equity sale activity occurred during the three months ended March 31, 2013.

### ***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 \$50.0 million of Affiliate equity during 2013, 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 adjusted for cash distributions from equity method investments, non-cash charges for intangible amortization and impairments, deferred taxes, imputed interest expense and contingent payment arrangements, share-based compensation, as well as increases and decreases in our consolidated working capital.

The increase in cash flows from operations in the three months ended March 31, 2013 as compared to the three months ended March 31, 2012 resulted principally from an increase in net income as adjusted for distributions from equity method investments and non-cash charges (\$87.8 million), as well as increases in the collections of investment advisory fees receivable (\$16.2 million) and decreases in the settlements of accounts payable and accrued liabilities (\$36.4 million).

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

Net cash flow used in investing activities increased \$9.1 million in the three months ended March 31, 2013, as compared to the three months ended March 31, 2012. This was primarily the result of an increase in purchases of fixed assets (\$3.3 million) and an increase in net purchases of investment securities (\$5.8 million) in the three months ended March 31, 2013.

### ***Financing Cash Flow***

Net cash flow used in financing activities increased \$172.5 million in the three months ended March 31, 2013 as compared to the three months ended March 31, 2012. This was primarily a result of the net repayment of senior bank debt (\$175.0 million), an increase in distributions to non-controlling interests (\$43.4 million) and an increase in note and contingent payments (\$37.6 million). These increases in cash outflows were partially offset by an increase in inflows related to Affiliate equity issuances and repurchases (\$32.7 million) and a decrease in repurchases of common stock (\$32.7 million).

Excess tax benefits associated with stock options have been reported as financing cash flows in the amount of \$7.5 million and \$3.5 million as of March 31, 2013 and 2012, respectively.

Under past acquisition agreements, we are contingently liable, upon achievement of specified financial targets, to make payments of up to \$467.8 million through 2017. In 2013, we expect to make total payments of approximately \$2.8 million to settle portions of these contingent arrangements. In addition, we expect to repurchase approximately \$50.0 million of Affiliate equity during 2013.

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Our Board of Directors has periodically authorized share repurchase programs (most recently October 2011). The maximum number of shares that may be repurchased under outstanding programs is approximately 2.3 million. The timing and amount of repurchases are determined at the discretion of management. There was no share purchase activity during the three months ended March 31, 2013.

We anticipate that borrowings under the credit facility and proceeds from the settlement of any forward equity sales, together with cash flows from operations will be sufficient to support our cash flow needs for the foreseeable future. As noted previously, we have the right to call and holders have the right to put the 2008 senior convertible notes for cash, which may require us to borrow under our credit facility or issue shares of our common stock.

### **Contractual Obligations**

The following table summarizes our contractual obligations as of March 31, 2013. Contractual debt obligations include the cash payment of fixed interest.

| <i>(in millions)</i>                          | Total             | Remainder<br>of 2013 | Payments Due    |                 |                   |
|---|-------------------|----------------------|-----------------|-----------------|-------------------|
|   |                   |                      | 2014-2015       | 2016-2017       | Thereafter        |
| <b>Contractual Obligations</b>                |                   |                      |                 |                 |                   |
| Senior bank debt                              | \$ 150.0          | \$                   | \$ 46.9         | \$ 103.1        | \$                |
| Senior convertible securities <sup>(1)</sup>  | 923.3             | 9.1                  | 36.3            | 36.3            | 841.6             |
| Junior convertible trust preferred securities | 1,625.0           | 27.7                 | 74.1            | 74.1            | 1,449.1           |
| Senior notes                                  | 791.0             | 15.1                 | 40.2            | 40.2            | 695.5             |
| Leases  | 174.2             | 20.7                 | 51.4            | 35.8            | 66.3              |
| Other liabilities <sup>(2)</sup>              | 37.3              | 23.0                 |                 |                 | 14.3              |
| Derivative instruments                        | 5.4               | 1.3                  | 3.2             | 0.9             |                   |
| <b>Total contractual obligations</b>          | <b>\$ 3,706.2</b> | <b>\$ 96.9</b>       | <b>\$ 252.1</b> | <b>\$ 290.4</b> | <b>\$ 3,066.8</b> |
| <b>Contingent Obligations</b>                 |                   |                      |                 |                 |                   |
| Contingent payment obligations <sup>(3)</sup> | \$ 215.7          | \$ 2.8               | \$ 64.8         | \$ 148.1        | \$                |

(1) Holders of the 2008 senior convertible notes may put interests of up to \$460.0 million in August 2013.

(2) Other liabilities reflect amounts payable to Affiliate managers related to our purchase of Affiliate equity interests. This table does not include liabilities for uncertain tax positions or commitments to co-invest in certain investment partnerships (of \$21.9 million and \$73.3 million as of March 31, 2013, respectively) as we cannot predict when such obligations will be paid.

(3) The amount of contingent payments related to investments in Affiliates disclosed in the table represents our expected settlement amounts. The maximum settlement amount through 2013 is approximately \$164.3 million and \$303.5 million in periods thereafter.

### **Recent Accounting Developments**

In February 2013, the Financial Accounting Standards Board issued an update to the guidance for reporting reclassifications out of accumulated other comprehensive income. The new guidance requires companies to present the impact of amounts reclassified from accumulated other comprehensive income and the income statement line items affected by the reclassification. The new guidance is effective for interim and fiscal periods beginning after December 15, 2012. We adopted this guidance in the first quarter of 2013. Adoption of this new guidance did not have a significant 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 March 31, 2013. Please refer to Item 7A in our 2012 Annual Report on Form 10-K.

**Item 4. Controls and Procedures**

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

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

**PART II OTHER INFORMATION**

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

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

In July 2010 and October 2011, the Board of Directors approved share repurchase programs authorizing us to repurchase up to 0.5 million and 2.0 million shares, respectively, of our common stock. There was no share repurchase activity during the three months ended March 31, 2013. As of March 31, 2013, approximately 2.3 million shares remain available for repurchase under these programs, which do not expire. Purchases may be made from time to time, at management's discretion.

**Item 6. Exhibits**

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



**SIGNATURES**

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

AFFILIATED MANAGERS GROUP, INC.  
(Registrant)

May 7, 2013

/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 No.</b> | <b>Description</b>   |
|--------------------|--|
| 10.1               | Credit Agreement dated as of April 30, 2013 among Affiliated Managers Group, Inc., the several banks and other financial institutions from time to time party thereto as lenders and Bank of America, N.A., as Administrative Agent, and the exhibits and schedules thereto (incorporated by reference to the Company's Current Report on Form 8-K (No. 001-13459), filed April 30, 2013).   |
| 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 March 31, 2013 are furnished herewith, formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Statements of Income for the three month periods ended March 31, 2013 and 2012, (ii) the Consolidated Balance Sheets at March 31, 2013 and December 31, 2012, (iii) the Consolidated Statement of Equity for the three month period ended March 31, 2013, (iv) the Consolidated Statements of Cash Flows for the three month periods ended March 31, 2013 and 2012, and (v) the Notes to the Consolidated Financial Statements. |

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

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

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