AFFILIATED MANAGERS GROUP, INC.
Form 10-Q
November 06, 2014
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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q
(Mark One)

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

For the quarterly period ended September 30, 2014
OR

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

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

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

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

600 Hale Street, P.O. Box 1000, Prides Crossing, Massachusetts 01965
(Address of principal executive offices)
(617) 747-3300
(Registrant's telephone number, including area code)

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

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

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

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

PART I—FINANCIAL INFORMATION
Item 1. Financial Statements
AFFILIATED MANAGERS GROUP, INC.
CONSOLIDATED STATEMENTS OF INCOME
(in millions, except per share data)
(unaudited)

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

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

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2013	2014	2013	2014
Net income	$156.4	$191.0	$420.4	$529.4
Other comprehensive income (loss):				
Foreign currency translation adjustment	18.1	(34.2)	(14.4)	(22.6)
Change in net realized and unrealized gain on derivative securities, net of tax	—	0.3	0.8	0.6
Change in net unrealized gain (loss) on investment securities, net of tax	6.3	4.1	(3.9)	(4.6)
Other comprehensive income (loss)	24.4	(29.8)	(17.5)	(26.6)
Comprehensive income	180.8	161.2	402.9	502.8
Comprehensive income (non-controlling interests)	(80.8)	(77.4)	(216.3)	(242.5)
Comprehensive income (controlling interest)	$100.0	$83.8	$186.6	$260.3

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

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

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

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

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

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

	Total Stockholders' Equity						
	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock at Cost	Non-controlling interests	Total Equity
December 31, 2013	$0.5	$479.9	$74.0	$1,711.2	$(131.4)	$1,010.4	$3,144.6
Net income	—	—	—	281.5	—	247.9	529.4
Share-based compensation	—	22.2	—	—	—	—	22.2
Common stock issued under share-based incentive plans	—	(110.2)	—	—	101.3	—	(8.9)
Tax benefit from share-based	—	58.9	—	—	—	—	58.9

incentive plans							
Settlement of convertible securities	0.1	276.4	—	—	—	—	276.5
Forward equity	—	(45.0)	—	—	—	—	(45.0)
Investments in Affiliates	—	—	—	—	—	117.1	117.1
Affiliate equity activity	—	(50.9)	—	—	—	16.6	(34.3)
Share repurchases	—	—	—	—	(51.7)	—	(51.7)
Distributions to non-controlling interests	—	—	—	—	—	(468.3)	(468.3)
Other comprehensive income (loss)	—	—	(21.2)	—	—	(5.4)	(26.6)
September 30, 2014	$0.6	$631.3	$52.8	$1,992.7	$(81.8)	$918.3	$3,513.9

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

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

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

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

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

AFFILIATED MANAGERS GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

The consolidated financial statements of Affiliated Managers Group, Inc. ("AMG" or the "Company") have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair statement of the results have been included. All intercompany balances and transactions have been eliminated. Certain reclassifications have been made to the prior period's financial statements to conform to the current period's presentation. Operating results for interim periods are not necessarily indicative of the results that may be expected for any other period or for the full year. The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2013 includes additional information about AMG, its operations, financial position and accounting policies, and should be read in conjunction with this Quarterly Report on Form 10-Q.

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

2. Recent Accounting Developments

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

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

3. Investments in Marketable Securities

Investments in marketable securities at December 31, 2013 and September 30, 2014 were $157.9 million and $158.1 million, respectively. The following is a summary of the cost, gross unrealized gains and losses and fair value of investments classified as available-for-sale and trading at December 31, 2013 and September 30, 2014:

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

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

4. Variable Interest Entities

The Company's Affiliates act as the investment manager for certain investment funds that are considered variable interest entities ("VIEs"). Affiliates are entitled to receive management fees and may be eligible, under certain circumstances, to receive performance fees. The Affiliates' exposure to risk in these entities is generally limited to any equity investment and any uncollected management or performance fees, neither of which were material at December 31, 2013 and September 30, 2014. The Affiliates do not have any investment performance guarantees to these VIEs.

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

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Affiliates' variable interests will not absorb the majority of the variability of the entity's net assets, these entities are not consolidated.

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

	December 31, 2013		September 30, 2014	
Category of Investment	Unconsolidated VIE Net Assets	Carrying Value and Maximum Exposure to Loss	Unconsolidated VIE Net Assets	Carrying Value and Maximum Exposure to Loss
Sponsored investment funds	$8,112.7	$1.7	$8,544.8	$0.8

5. Debt

Senior Bank Debt

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

On April 15, 2014, the Company entered into a $250.0 million five-year senior unsecured term loan. The Company pays interest at specified rates (based on either the LIBOR rate or the prime rate as in effect from time to time). Subject to certain conditions, the Company may borrow up to an additional $100.0 million.

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

Senior Notes

On February 11, 2014, the Company sold $400.0 million aggregate principal amount of 4.25% senior notes due 2024 (the “2024 senior notes”). The unsecured 2024 senior notes pay interest semi-annually and may be redeemed at any time, in whole or in part, at a make-whole redemption price plus accrued and unpaid interest. In addition to customary event of default provisions, the underlying indenture limits the Company's ability to consolidate, merge or sell all or substantially all of its assets, and to create certain liens.

Convertible Securities

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

6. Forward Equity

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

7. Commitments and Contingencies

The Company has committed to co-invest in certain investment partnerships. As of September 30, 2014, these unfunded commitments were $70.6 million and may be called in future periods. In connection with a past acquisition agreement, the Company is contractually entitled to reimbursement from a prior owner for $23.8 million of these commitments if they are called.

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

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

8. Fair Value Measurements

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

		Fair Value Measurements		
	December 31, 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Financial Assets				
Cash equivalents	$ 39.0	$ 39.0	$—	$ —
Investments in marketable securities[1]				
Trading securities	22.5	22.5	—	—
Available-for-sale securities	135.4	135.4	—	—
Other investments	164.3	14.1	18.4	131.8
Financial Liabilities				
Contingent payment arrangements[2]	$ 50.2	$—	$—	$ 50.2
Obligations to related parties[2]	76.9	—	—	76.9
Interest rate swaps[3]	2.5	—	2.5	—

		Fair Value Measurements		
	September 30, 2014	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Financial Assets				
Cash equivalents	$ 32.4	$ 32.4	$—	$ —
Investments in marketable securities[1]				
Trading securities	22.1	22.1	—	—
Available-for-sale securities	136.0	136.0	—	—
Other investments	171.1	20.3	13.1	137.7
Financial Liabilities				
Contingent payment arrangements[2]	$ 57.0	$—	$—	$ 57.0
Obligations to related parties[2]	92.7	—	—	92.7
Interest rate swaps[3]	1.6	—	1.6	—

(1) Principally investments in equity securities.

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

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

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

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

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

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

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

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

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

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

It is the Company's policy to value financial assets or liabilities transferred as of the beginning of the period in which the transfer occurs. There were no significant transfers of financial assets or liabilities between Level 1 and Level 2 in the three and nine months ended September 30, 2013 and 2014, respectively.

Level 3 Financial Assets and Liabilities

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

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

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

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

(2) 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.

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

Quantitative Information about Level 3 Fair Value Measurements

	Valuation Techniques	Unobservable Input	Fair Value at December 31, 2013	Range at December 31, 2013	Fair Value at September 30, 2014	Range at September 30, 2014
Contingent payment arrangements	Discounted cash flow	Growth rates	$50.2	3% – 11%	$57.0	1% – 9%
		Discount rates		14% – 18%		12% – 17%
Affiliate equity repurchase obligations	Discounted cash flow	Growth rates	4.0	8%	20.5	3% – 10%
		Discount rates		15%		15% – 16%

Investments in Certain Entities that Calculate Net Asset Value

The Company uses the NAV of certain investments as their fair value. The NAVs that have been provided by the investees have been derived from the fair values of the underlying investments as of the measurement dates. The following table summarizes, as of December 31, 2013 and September 30, 2014, the nature of these investments and any related liquidity restrictions or other factors which may impact the ultimate value realized:

Category of Investment	December 31, 2013 Fair Value	December 31, 2013 Unfunded Commitments	September 30, 2014 Fair Value	September 30, 2014 Unfunded Commitments
Private equity fund-of-funds[1]	$131.8	$62.9	$137.7	$70.6
Other funds[2]	82.3	—	81.0	—
	$214.1	$62.9	$218.7	$70.6

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

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

Other Financial Assets and Liabilities Not Carried at Fair Value

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

	December 31, 2013		September 30, 2014		
	Carrying Value	Fair Value	Carrying Value	Fair Value	Fair Value Hierarchy
Senior notes	$340.0	$325.0	$736.7	$764.0	Level 2
Convertible securities	518.7	963.9	302.6	533.1	Level 2

9. Business Combinations

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

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

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

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

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

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

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

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

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

10. Intangible Assets

Consolidated Affiliates

The following tables present the change in goodwill and components of acquired client relationships during the nine months ended September 30, 2014:

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

	Acquired Client Relationships				
	Definite-lived			Indefinite-lived	Total
	Gross Book Value	Accumulated Amortization	Net Book Value	Net Book Value	Net Book Value
Balance, as of December 31, 2013	$1,039.5	$(442.8)	$596.7	$864.0	$1,460.7
New Investments	149.6	—	149.6	46.8	196.4
Intangible amortization and impairments	—	(84.2)	(84.2)	—	(84.2)
Foreign currency translation	(1.3)	—	(1.3)	(5.0)	(6.3)
Balance, as of September 30, 2014	$1,187.8	$(527.0)	$660.8	$905.8	$1,566.6

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

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

Equity Method Investments in Affiliates

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

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

11. Share-Based Compensation

A summary of share-based compensation is as follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2013	2014	2013	2014
Share-based compensation	$5.9	$7.0	$17.3	$22.2
Tax benefit	2.3	2.7	6.7	8.5

There was $79.3 million and $64.3 million of unrecognized share-based compensation as of December 31, 2013 and September 30, 2014, respectively, which will be recognized over a weighted-average period of approximately three years (assuming no forfeitures).

Stock Options

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

	Stock Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)
Unexercised options outstanding—December 31, 2013	3.0	$77.71	
Options granted	0.0	204.99	
Options exercised	(0.6)	59.89	
Options forfeited	(0.1)	81.50	
Unexercised options outstanding—September 30, 2014	2.3	83.06	3.0
Exercisable at September 30, 2014	1.8	78.65	2.7

Restricted Stock

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

	Restricted Stock	Weighted Average Grant Date Value
Unvested units—December 31, 2013	0.5	$176.38
Units granted	0.0	190.42
Units vested	(0.1)	132.88
Units forfeited	(0.0)	173.77
Unvested units—September 30, 2014	0.4	183.08

12. Affiliate Equity

A summary of Affiliate equity expense is as follows:

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

Affiliate equity expense attributable to the non-controlling interests was $2.2 million and $11.3 million, respectively, in the three and nine months ended September 30, 2013 as compared to $7.9 million and $35.1 million, respectively, in the three and nine months ended September 30, 2014. As of December 31, 2013 and September 30, 2014, the Company had $68.2 million and $76.1 million, respectively, of unrecognized Affiliate equity expense, which will be recognized over a weighted average period of approximately four years (assuming no forfeitures). Of this unrecognized expense, $32.1 million and $43.2 million is attributable to the non-controlling interests, respectively.

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

	Redeemable Non-controlling Interests
Balance, as of December 31, 2013	$ 641.9
Transactions in Redeemable non-controlling interests	(39.6)
Changes in redemption value	101.4
Balance, as of September 30, 2014	$ 703.7

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

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

13. Income Taxes

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

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

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

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

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

As of September 30, 2014, the Company carried a liability for uncertain tax positions of $19.4 million, including $1.7 million for interest and related charges. At September 30, 2014, this liability also included $16.8 million for tax positions that, if recognized, would affect the Company's effective tax rate.

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

14. Earnings Per Share

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

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

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

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

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

15. Comprehensive Income

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

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

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