AFFILIATED MANAGERS GROUP, INC.
Form 10-Q
August 03, 2017
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UNITED STATES
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 June 30, 2017

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)

777 South Flagler Drive, West Palm Beach, Florida 33401
(Address of principal executive offices)
(800) 345-1100
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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

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

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

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

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 55,960,350 shares of the registrant’s common stock outstanding on August 1, 2017.

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2016	2017	2016	2017
Revenue	$554.1	$570.9	$1,099.5	$1,115.2
Operating expenses:				
Compensation and related expenses	232.1	242.2	458.7	484.2
Selling, general and administrative	96.6	89.1	192.5	177.8
Intangible amortization and impairments	28.6	22.0	55.3	43.9
Depreciation and other amortization	5.0	4.9	10.0	10.1
Other operating expenses (net)	10.0	11.8	22.5	21.7
Total operating expense (net)	372.3	370.0	739.0	737.7
	181.8	200.9	360.5	377.5
Income from equity method investments	65.2	75.0	133.2	160.9
Operating income	247.0	275.9	493.7	538.4
Non-operating (income) and expenses:				
Investment and other income	(11.6)	(15.7)	(15.6)	(29.2)
Interest expense	21.9	22.4	44.0	44.3
Imputed interest expense and contingent payment arrangements	0.8	2.3	(1.1)	3.1
	11.1	9.0	27.3	18.2
Income before income taxes	235.9	266.9	466.4	520.2
Income taxes	52.3	62.5	109.4	122.2
Net income	183.6	204.4	357.0	398.0
Net income (non-controlling interests)	(75.3)	(78.1)	(144.7)	(149.2)
Net income (controlling interest)	$108.3	$126.3	$212.3	$248.8
Average shares outstanding (basic)	53.8	56.3	53.9	56.5
Average shares outstanding (diluted)	56.7	58.7	56.7	59.0
Earnings per share (basic)	$2.01	$2.24	$3.94	$4.40
Earnings per share (diluted)	$1.98	$2.22	$3.88	$4.35
Dividends per share	$—	$0.20	$—	$0.40

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

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2016	2017	2016	2017
Net income	$183.6	$204.4	$357.0	$398.0
Other comprehensive income (loss):				
Controlling interest:				
Foreign currency translation gain (loss)	(36.7)	20.2	(33.8)	31.5
Change in net realized and unrealized gain (loss) on derivative securities, net of tax	0.9	(1.3)	(0.1)	(1.9)
Change in net unrealized gain (loss) on investment securities, net of tax	(13.8)	(4.6)	(24.3)	(1.1)
Other comprehensive income (loss) (controlling interest)	(49.6)	14.3	(58.2)	28.5
Non-controlling interest:				
Foreign currency translation gain (loss)	(17.2)	6.7	(22.1)	7.6
Change in net realized and unrealized gain (loss) on derivative securities, net of tax	(0.6)	0.7	(0.7)	1.0
Change in net unrealized gain (loss) on investment securities, net of tax	(0.2)	0.6	(0.5)	2.0
Other comprehensive income (loss) (non-controlling interest)	(18.0)	8.0	(23.3)	10.6
Other comprehensive income (loss)	(67.6)	22.3	(81.5)	39.1
Comprehensive income	116.0	226.7	275.5	437.1
Comprehensive income (non-controlling interests)	(57.3)	(86.1)	(121.4)	(159.8)
Comprehensive income (controlling interest)	$58.7	$140.6	$154.1	$277.3

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

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

	December 31, 2016	June 30, 2017
Assets		
Cash and cash equivalents	$ 430.8	$ 364.6
Receivables	383.3	440.3
Investments in marketable securities	122.4	103.6
Other investments	147.5	151.8
Fixed assets (net)	110.1	109.7
Goodwill	2,628.1	2,647.5
Acquired client relationships (net)	1,497.4	1,476.1
Equity method investments in Affiliates	3,368.3	3,278.7
Other assets	61.2	60.0
Total assets	$ 8,749.1	$ 8,632.3
Liabilities and Equity		
Payables and accrued liabilities	$ 729.3	$ 618.3
Senior bank debt	868.6	788.8
Senior notes	939.4	940.6
Convertible securities	301.6	303.0
Deferred income taxes	660.8	677.0
Other liabilities	149.4	203.6
Total liabilities	3,649.1	3,531.3
Commitments and contingencies (Note 5)		
Redeemable non-controlling interests	673.5	730.6
Equity:		
Common stock ($0.01 par value, 153.0 shares authorized; 58.5 shares outstanding in 2016 and 2017)	0.6	0.6
Additional paid-in capital	1,073.5	912.3
Accumulated other comprehensive loss	(122.9)	(94.4)
Retained earnings	3,054.4	3,280.3
	4,005.6	4,098.8
Less: Treasury stock, at cost (1.8 shares in 2016 and 2.6 shares in 2017)	(386.0)	(498.8)
Total stockholders' equity	3,619.6	3,600.0
Non-controlling interests	806.9	770.4
Total equity	4,426.5	4,370.4
Total liabilities and equity	$ 8,749.1	$ 8,632.3

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

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

	Total Stockholders' Equity							
	Shares Outstanding	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock at Cost	Non-controlling Interests	Total Equity
December 31, 2015	55.8	$0.6	$ 694.9	$ (18.1)	$2,581.6	$(421.9)	$ 932.0	$3,769.1
Net income	—	—	—	—	212.3	—	144.7	357.0
Other comprehensive loss	—	—	—	(58.2)	—	—	(23.3)	(81.5)
Share-based compensation	—	—	20.0	—	—	—	—	20.0
Common stock issued under share-based incentive plans	—	—	(29.5)	—	—	30.7	—	1.2
Share repurchases	—	—	—	—	—	(33.4)	—	(33.4)
Issuance costs and other	—	—	(1.0)	—	—	—	—	(1.0)
Affiliate equity activity:								
Affiliate equity expense	—	—	2.8	—	—	—	8.7	11.5
Issuances	—	—	(6.0)	—	—	—	11.5	5.5
Repurchases	—	—	12.6	—	—	—	0.5	13.1
Changes in redemption value of Redeemable non-controlling interests	—	—	(68.7)	—	—	—	—	(68.7)
Transfers to Redeemable non-controlling interests	—	—	—	—	—	—	(20.3)	(20.3)
Capital contributions by Affiliate equity holders	—	—	—	—	—	—	1.0	1.0
Distributions to non-controlling interests	—	—	—	—	—	—	(189.0)	(189.0)
June 30, 2016	55.8	$0.6	$ 625.1	$ (76.3)	$2,793.9	$(424.6)	$ 865.8	$3,784.5

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

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

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 Six Months Ended June 30,	
	2016	2017
Cash flow from (used in) operating activities:		
Net income	$ 357.0	$ 398.0
Adjustments to reconcile Net income to net Cash flow from operating activities:		
Intangible amortization and impairments	55.3	43.9
Depreciation and other amortization	10.0	10.1
Deferred income tax provision	50.4	56.0
Income from equity method investments, net of amortization	(133.2)	(160.9)
Distributions of earnings received from equity method investments	205.1	283.5
Amortization of issuance costs	2.4	2.3
Share-based compensation and Affiliate equity expense	33.2	48.2
Other non-cash items	(5.0)	(21.9)
Changes in assets and liabilities:		
Purchases of trading securities by Affiliate sponsored consolidated products	(41.8)	(16.4)
Sales of trading securities by Affiliate sponsored consolidated products	40.0	15.0
Increase in receivables	(50.0)	(75.8)
Increase in other assets	(5.8)	(4.0)
Decrease in payables, accrued liabilities and other liabilities	(176.2)	(134.0)
Cash flow from operating activities	341.4	444.0
Cash flow from (used in) investing activities:		

Investments in Affiliates	(551.4	)	(30.3	)
Purchase of fixed assets	(8.6	)	(7.2	)
Purchase of investment securities	(8.0	)	(13.6	)
Sale of investment securities	28.0		52.1	
Cash flow from (used in) investing activities	(540.0	)	1.0	
Cash flow from (used in) financing activities:				
Borrowings of senior debt	585.0		205.0	
Repayments of senior debt	(330.0	)	(285.0	)
Issuance of common stock	7.7		29.5	
Dividends paid on common stock	—		(22.6	)
Repurchase of common stock	(33.4	)	(170.2	)
Distributions to non-controlling interests	(189.0	)	(178.6	)
Affiliate equity issuances and repurchases	(71.7	)	(77.1	)
Settlement of forward equity sale agreement	—		5.2	
Other financing items	17.0		(23.4	)
Cash flow used in financing activities	(14.4	)	(517.2	)
Effect of foreign exchange rate changes on cash and cash equivalents	(15.7	)	6.0	
Net decrease in cash and cash equivalents	(228.7	)	(66.2	)
Cash and cash equivalents at beginning of period	563.8		430.8	
Net cash inflows upon the consolidation and deconsolidation of Affiliate sponsored products	25.3		—	
Cash and cash equivalents at end of period	$ 360.4		$ 364.6	

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

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

1. Basis of Presentation and Use of Estimates

The Consolidated Financial Statements of Affiliated Managers Group, Inc. (the "Company") have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all normal and recurring adjustments considered necessary for a fair statement of the results have been included and all intercompany balances and transactions have been eliminated. During the quarter, the Company changed its Consolidated Statement of Income presentation to include Income from equity method investments in Operating income, as its equity method Affiliates are integral to the Company's operations. This change, along with other reclassifications, has 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, 2016 includes additional information about its operations, financial position and accounting policies, and should be read in conjunction with this Quarterly Report on Form 10-Q.

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

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

2. Recent Accounting Developments

Effective January 1, 2017, the Company adopted Accounting Standard Update ("ASU") 2016-07, Investments - Equity Method and Joint Ventures: Simplifying the Transition to the Equity Method of Accounting and ASU 2016-06, Derivatives, and Hedging: Contingent Put and Call Options in Debt Instruments. The adoption of these updates did not have a significant impact on the Company's Consolidated Financial Statements.

In May 2014, the Financial Accounting Standards Board (the "FASB") issued ASU 2014-09, Revenue from Contracts with Customers, and subsequently issued several related amendments. The new standard provides a comprehensive model for revenue recognition and is effective for interim and fiscal periods beginning after December 15, 2017. The standard may be adopted using either the full or modified retrospective method. The Company continues to evaluate the impact of this standard on the timing of the recognition of its Revenue and how certain costs will be presented, but does not expect the adoption of this standard to have a significant impact on the timing of the recognition of Revenue.

In January 2016, the FASB issued ASU 2016-01, Fair Value: Recognition and Measurement of Financial Assets and Liabilities. Under the new standard, all equity investments in unconsolidated entities (other than those accounted for using the equity method of accounting) will generally be measured at fair value with any changes recognized through earnings. The standard is effective for interim and fiscal periods beginning after December 15, 2017 and must be adopted using a modified retrospective method. The impact of this standard on the Company's Consolidated Financial Statements will depend on the equity investments held by the Company at the time of adoption.

In February 2016, the FASB issued ASU 2016-02, Leases, which requires lessees to recognize assets and liabilities arising from most operating leases on the statement of financial position. The standard is effective for interim and fiscal periods beginning after December 15, 2018 and must be adopted using a modified retrospective method. The Company is evaluating the impact of this standard on its Consolidated Financial Statements.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows - Classification of Certain Cash Receipts and Cash Payments, which clarifies how cash receipts and cash payments are classified in the statement of cash flows. The standard is effective for interim and fiscal periods beginning after December 15, 2017 and must be adopted using a full retrospective method. The Company does not expect the adoption of this standard to have a significant impact on its Consolidated Financial Statements.

In January 2017, the FASB issued ASU 2017-01, Clarifying the Definition of a Business, which provides guidance on evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The standard is effective for interim and fiscal periods beginning after December 15, 2017. The Company will apply the standard prospectively upon adoption. The impact of this standard on the Company’s Consolidated Financial Statements will depend on acquisitions (or disposals) of assets or businesses by the Company in periods following adoption.

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

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

In May 2017, the FASB issued ASU 2017-09, Compensation - Stock Compensation, which simplifies modification accounting related to share-based arrangements. Under the new standard, modification assessments will not be required if fair value, vesting conditions and classification would be unaffected by a modification. The standard is effective for interim and fiscal periods beginning after December 15, 2017. The Company will apply the standard prospectively upon adoption. The Company does not expect the adoption of this standard to have a significant impact on its Consolidated Financial Statements.

3. Investments in Marketable Securities

Investments in marketable securities at December 31, 2016 and June 30, 2017 were $122.4 million and $103.6 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:

	Available-for-Sale		Trading	
	December 31, 2016	June 30, 2017	December 31, 2016	June 30, 2017
Cost	$ 66.1	$ 36.0	$ 34.4	$ 43.2
Unrealized gains	17.6	17.5	6.6	8.0
Unrealized losses	(1.8)	—	(0.5)	(1.1)
Fair Value	$ 81.9	$ 53.5	$ 40.5	$ 50.1

In the three and six months ended June 30, 2016, the Company received proceeds of $28.6 million and $34.4 million, respectively, from the sale of investments classified as available-for-sale and recorded gains of $7.5 million and $9.2 million, respectively. In the three and six months ended June 30, 2017, the Company received proceeds of $13.1 million and $43.3 million, respectively, from the sale of investments classified as available-for-sale and recorded gains of $6.0 million and $11.8 million, respectively. There were no significant realized gains or losses on investments classified as trading in the three and six months ended June 30, 2016. In the three and six months ended June 30, 2017, the Company received proceeds of $7.9 million and $15.0 million, respectively, from the sale of investments classified as trading and recorded net gains of $2.4 million and $3.3 million, respectively. The realized gains and losses on securities held in Affiliate sponsored consolidated products were recorded in Other operating expenses (net), other realized gains and losses were recorded in Investment and other income.

4. Investments in Affiliates and Affiliate Sponsored Investment Products

Investments in Affiliates

The Company's Affiliates are consolidated or accounted for under the equity method, depending upon the underlying structure of and relationship with each Affiliate.

A limited number of the Company's Affiliates are considered voting rights entities ("VREs") because the total equity investment at risk is sufficient to enable the entities to finance their activities independently and the entities' equity holders have the right to receive residual returns, the obligation to absorb losses and the right to direct the activities of the entity that most significantly impact its economic performance. Most of the Company's Affiliates considered VREs are accounted for under the equity method because the Company lacks control, but is deemed to have significant influence.

Substantially all of the Company’s Affiliates are considered variable interest entities (“VIEs”) because they are structured as partnerships (or similar entities) and the limited partners lack substantive kick-out and substantive participation rights over the general partner. The Company consolidates a VIE when it is the general partner (or similar role) and, therefore, the primary beneficiary of the entity, which is defined as having the power to direct the activities that most significantly impact the VIE’s economic performance and the right to receive benefits from or the obligation to absorb losses of the entity that could potentially be significant to the VIE. Substantially all of the Company’s consolidated Affiliates are considered VIEs. The Company applies the equity method of accounting to a VIE when it is not the primary beneficiary.

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

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

	December 31, 2016		June 30, 2017	
	Unconsolidated VIE Net Assets	Carrying Value and Maximum Exposure to Loss	Unconsolidated VIE Net Assets	Carrying Value and Maximum Exposure to Loss
Affiliates accounted for under the Equity Method	$1,047.6	$ 2,846.8	$895.2	$ 2,753.3

Affiliate Sponsored Investment Products

The Company's consolidated Affiliates sponsor various investment products for which they also act as the investment advisor. These investment products are primarily owned by third-party investors; however, certain products are funded with seed capital investments from Affiliates. Third-party investors are generally entitled to substantially all of the economics of these products.

Certain of the Company's Affiliate sponsored investment products are considered VIEs because they are structured as partnerships (or similar entities) and the limited partners lack substantive kick-out and substantive participation rights over the general partner. The Company's Affiliates' involvement with sponsored investment products is generally limited to that of a service provider, and their seed capital investments, if any, represent an insignificant interest in the relevant investment products' net assets. The Company's and its consolidated Affiliates' exposure to risk in these entities is generally limited to any capital contribution made or required to be made and any earned but uncollected management and performance fees. As a result, in most cases these VIEs are not consolidated and are accounted for under the equity method because neither the Company nor its Affiliates are deemed to be the primary beneficiary.

The net assets of Affiliate sponsored investment products that were considered VIEs accounted for under the equity method and the Company's maximum risk of loss were as follows:

	December 31, 2016		June 30, 2017	
	Unconsolidated VIE Net Assets	Carrying Value and Maximum Exposure to Loss	Unconsolidated VIE Net Assets	Carrying Value and Maximum Exposure to Loss
Affiliate sponsored investment products	$1,756.6	$ 9.4	$1,919.4	$ 10.1

5. Commitments and Contingencies

From time to time, the Company and its Affiliates may be subject to claims, legal proceedings and other contingencies in the ordinary course of their business activities. Any such matters are subject to various uncertainties, and it is possible that some of these matters may be resolved in a manner unfavorable to the Company or its Affiliates. The Company and its Affiliates establish accruals, as necessary, for matters for which the outcome is probable and the amount of the liability can be reasonably estimated.

Third Avenue Management LLC ("Third Avenue"), one of the Company's consolidated Affiliates, was named as a defendant in various legal actions relating to the liquidation and closure of the Third Avenue Focused Credit Fund. The Company was named as a co-defendant in one of these actions, as a purported control person. In 2016, Third Avenue recorded a reserve of $15.0 million in connection with the proposed resolution of all claims, including against the Company, related to the Focused Credit Fund. During the quarter, a proposed settlement of these claims, including those against the Company, was approved by the applicable courts, and the settlement payment is expected to be funded by Third Avenue and its insurers in the third quarter of 2017. The amount of the previously recorded reserve has not changed as a result of the settlement.

The Company has committed to co-invest in certain Affiliate sponsored investment products. As of June 30, 2017, these unfunded commitments were $92.1 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 of one of the Company’s Affiliates for $11.1 million of these commitments if they are called.

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

As of June 30, 2017, the Company was contingently liable, upon the achievement by certain Affiliates of specified financial targets, to make payments related to the Company's investments in the Affiliates through 2019. For its consolidated Affiliates, the Company was contingently liable for up to \$21.7 million, and expected to make payments of \$8.9 million (\$1.6 million in 2017). The present value of these expected payments was \$7.8 million as of June 30, 2017. For its equity method Affiliates, the Company was contingently liable for up to \$170.0 million, and expected to make no payments.

Affiliate equity interests provide holders with a conditional right to put their interests to the Company over time. See Note 12. In addition, in connection with an investment in an Affiliate accounted for under the equity method, the Company entered into an arrangement with a minority owner of the Affiliate that gives such owner the right to sell a portion of its ownership interest in the Affiliate to the Company annually beginning in 2018. The purchase price of these conditional purchases will be at fair market value on the date of the transaction.

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

6. Fair Value Measurements

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

		Fair Value Measurements		
	December 31, 2016	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	\$ 64.1	\$ 64.1	\$ —	\$ —
Investments in marketable securities[1]				
Trading securities	40.5	40.5	—	—
Available-for-sale securities	81.9	81.9	—	—
Other investments	3.4	3.4	—	—
Foreign currency forward contracts[2]	0.6	—	0.6	—
Financial Liabilities[2]				
Contingent payment arrangements	\$ 8.6	\$ —	\$ —	\$ 8.6
Affiliate equity obligations	12.1	—	—	12.1
Foreign currency forward contracts	0.5	—	0.5	—

AFFILIATED MANAGERS GROUP, INC.
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		Fair Value Measurements		
	June 30, 2017	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	$ 33.0	$ 33.0	$ —	$ —
Investments in marketable securities[1]				
Trading securities	50.1	50.1	—	—
Available-for-sale securities	53.5	53.5	—	—
Foreign currency forward contracts[2]	0.8	—	0.8	—
Financial Liabilities[2]				
Contingent payment arrangements	$ 7.8	$ —	$ —	$ 7.8
Affiliate equity obligations	70.7	—	—	70.7
Foreign currency forward contracts	1.2	—	1.2	—

(1) Principally investments in equity securities.

(2) Amounts are presented within Other assets or Other liabilities.

The following are descriptions 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, without enacted liquidity fees or redemption gates that are valued at net asset value (“NAV”).

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

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

Affiliate equity obligations include agreements to repurchase Affiliate equity. The significant unobservable inputs that are used in the fair value measurement of the agreements to repurchase Affiliate equity are growth and discount rates. Increases in the growth rate result in a higher obligation while increases in the discount rate result in a lower obligation.

Foreign currency forward contracts use model-derived valuations in which all significant inputs are observable in active markets to determine fair value.

It is the Company’s policy to value financial assets or liabilities transferred as of the beginning of the period in which the transfer occurs. There were no significant transfers of financial assets or liabilities between level 1 and level 2 in

the three and six months ended June 30, 2016 and 2017.
Level 3 Financial Assets and Liabilities
The following tables present the changes in level 3 liabilities:

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AFFILIATED MANAGERS GROUP, INC.
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	For the Three Months Ended June 30,			
	2016		2017	
	Contingent Payment Arrangements	Affiliate Equity Obligations	Contingent Payment Arrangements	Affiliate Equity Obligations
Balance, beginning of period	$7.8	$ 35.6	$8.9	$ 91.5
Net (gains) losses	0.2 [1]	—	1.7 [1]	—
Purchases and issuances	—	9.7	—	50.8
Settlements and reductions	—	(18.3)	(2.8)	(71.6)
Balance, end of period	$8.0	$ 27.0	$7.8	$ 70.7
Net change in unrealized (gains) losses relating to instruments still held at the reporting date	$0.2 [1]	$ —	$1.7 [1]	$ —

	For the Six Months Ended June 30,			
	2016		2017	
	Contingent Payment Arrangements	Affiliate Equity Obligations	Contingent Payment Arrangements	Affiliate Equity Obligations
Balance, beginning of period	$10.2	$ 62.3	$8.6	$ 12.1
Net (gains) losses	(2.2) [1]	—	2.0 [1]	—
Purchases and issuances	—	39.8	—	150.4
Settlements and reductions	—	(75.1)	(2.8)	(91.8)
Balance, end of period	$8.0	$ 27.0	$7.8	$ 70.7
Net change in unrealized (gains) losses relating to instruments still held at the reporting date	$(2.2) [1]	$ —	2.0 [1]	$ —

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(1) Accretion and changes in the expected value of the Company’s contingent payment arrangements are recorded in Imputed interest expense and contingent payment arrangements.

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