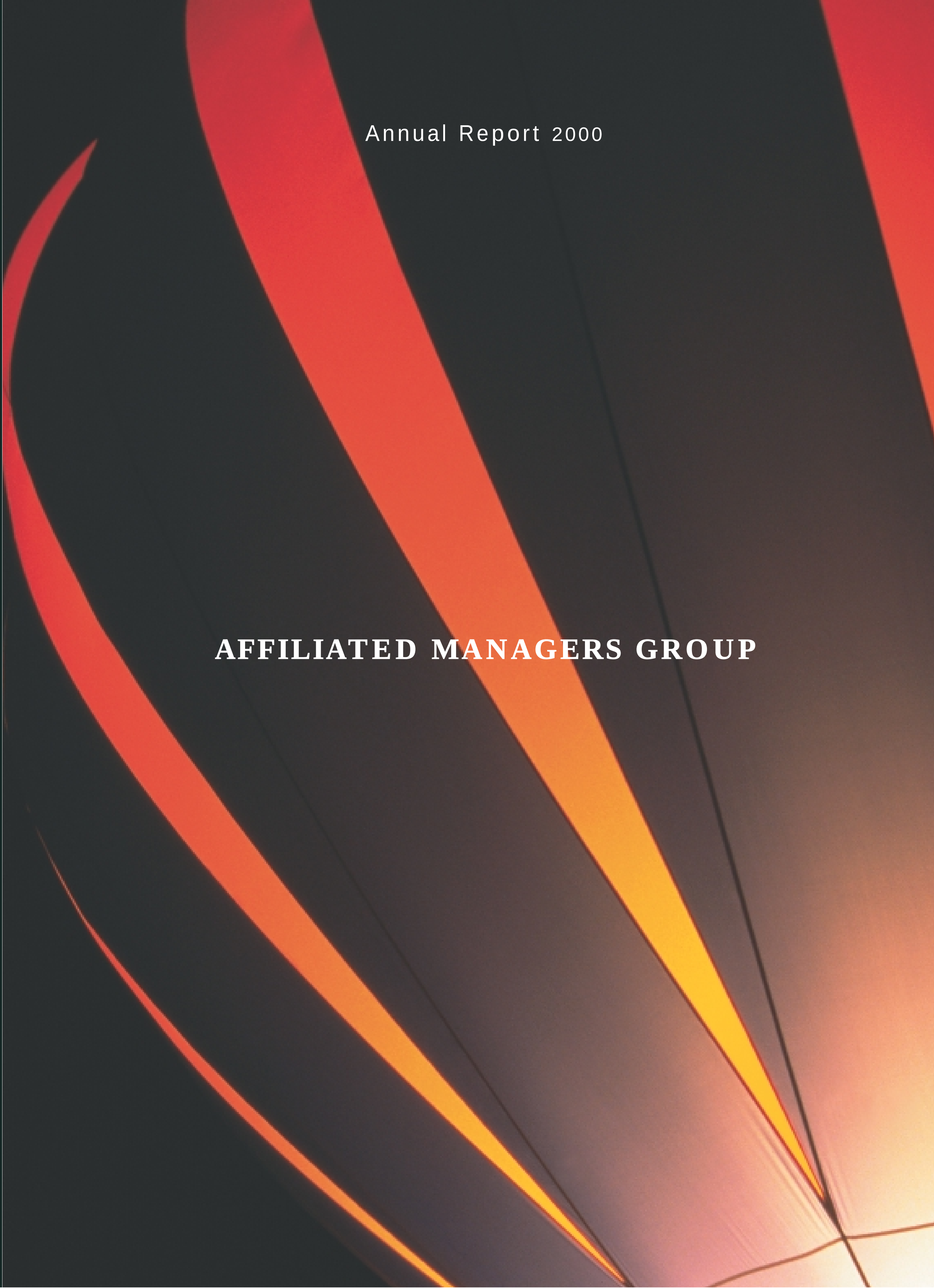


Annual Report 2000

AFFILIATED MANAGERS GROUP

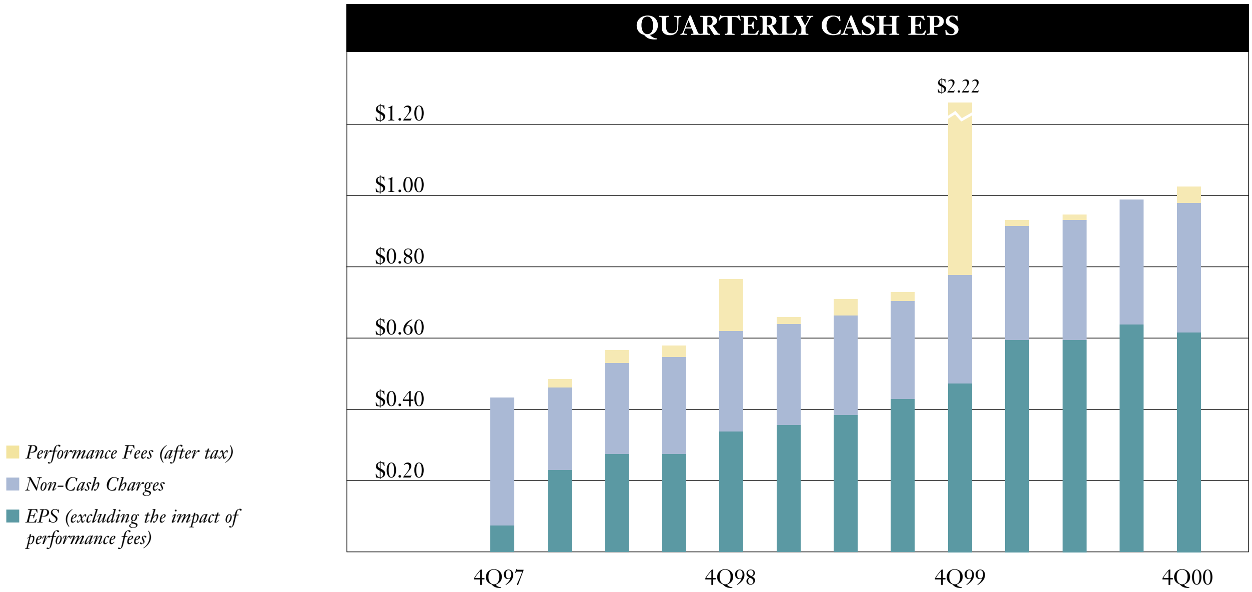
Affiliated Managers Group, Inc. (NYSE: AMG) is an asset management company that acquires and holds majority interests in a diverse group of growing, mid-sized investment management firms (its "Affiliates"). AMG's innovative approach preserves the entrepreneurial orientation that distinguishes the most successful investment management firms by:

- ***Maintaining and enhancing Affiliate managers' equity incentives in their firms;***
- ***Allowing Affiliate managers to retain operational autonomy, thereby preserving each Affiliate's distinct culture and investment focus; and***
- ***Providing Affiliates with the ability to realize the benefits of scale economies in distribution, operations and technology.***

AMG grows both through the internal growth of its existing Affiliates and through investments in new Affiliates. Since its founding, the Company has successfully invested in 15 Affiliates which, as of December 31, 2000, collectively managed over $77 billion in assets across a broad range of products, investment styles and distribution channels. AMG has consistently achieved substantial growth in earnings and cash flow. In 2000, the Company's Cash EPS, excluding performance fees, increased 35%.

FINANCIAL HIGHLIGHTS

(in millions, except as indicated and per share data)	1998	1999	2000
		Years ended December 31,	
OPERATING RESULTS			
Revenues	$238.5	$518.7	$458.7
EBITDA (1)	76.3	166.8	142.4
Net income	25.6	72.2	56.7
Cash Net Income (2)	45.7	98.3	87.7
Earnings per share – diluted	$ 1.33	$ 3.18	$ 2.49
Cash earnings per share (3) – diluted	2.38	4.33	3.85
BALANCE SHEET DATA			
Total assets	$605.3	$909.1	$793.7
Total debt	213.3	175.3	151.8
Stockholders' equity	313.7	478.0	493.9
OTHER FINANCIAL DATA			
Assets under management *(at period end, in billions)*	$ 57.7	$ 82.0	$ 77.5
Average shares outstanding – diluted	19.2	22.7	22.8



(1) Earnings before interest expense, income taxes, depreciation and amortization.
(2) Net income plus depreciation and amortization.
(3) Cash Net Income on a per share basis.

Unless otherwise noted, data pertaining to assets under management is stated as of December 31, 2000. Excluding information in the Selected Historical Financial Data table, earnings per share and cash earnings per share for 1997 are pro forma and assume AMG's 1997 investments, related financings and initial public offering occurred as of the beginning of that year.

We are very pleased with AMG's results for 2000. The strong and balanced performance of our Affiliates allowed AMG to continue its earnings momentum, with Cash EPS, excluding performance fees, growing 35%, despite a difficult equity market environment. This earnings growth for 2000 followed excellent results in 1998 and 1999 – from the time of our Initial Public Offering in November 1997 to December 31, 2000, AMG achieved a compound annual growth rate in Cash EPS of 37%.

AMG's strong and consistent earnings growth reflects outstanding performance by individual Affiliates and the stability our Affiliates provide as a group through their diverse products, investment styles and distribution channels. AMG benefited in 2000 from the internal growth of our Affiliates, especially those that provide the largest contributions to our earnings. While the financial results for 2000 did not reflect the level of performance fee revenue achieved in 1999, we are pleased with the growth of our asset-based fee revenue for the year 2000. Moreover, the broad range of performance fee products among our Affiliates offers the ongoing opportunity for additional revenue from performance fees in future periods.

The five Affiliates which were responsible for over 80% of AMG's EBITDA generally achieved excellent performance in their major products relative to their benchmarks. Tweedy, Browne delivered outstanding investment results, especially in its global value product, resulting in the firm being named International Fund Manager of the Year for 2000 by Morningstar, Inc.® Rorer Asset Management, another value equity Affiliate, also achieved excellent investment results and substantial growth through net client cash flow. Our mutual fund subsidiary, The Managers Funds, was among the fastest growing fund complexes in the United States with 39% growth from client inflows alone. Finally, we are quite pleased with the performances of Essex Investment Management and Frontier Capital Management, even though, as growth equity managers, their investment styles were not in favor in 2000.

Reflecting the diversity of our broader Affiliate group, these five Affiliates have a varied set of products and investment styles, and participate across a range of distribution channels, with Essex and Frontier more focused on institutional clients, and Tweedy, Browne, Rorer and The Managers Funds more concentrated in the high net worth and retail channels. These Affiliates have achieved excellent earnings growth following our investment – the average compound annual growth in EBITDA since our investments in them was 47% at year's end.

The year 2000 was filled with positive developments for AMG. One of the most significant occurred in January when we announced the completion of our investment in Frontier Capital Management, a Boston-based firm specializing in growth equity management for institutional and high net worth clients. We also helped existing Affiliates accelerate their growth through the launch of two new retail funds

From left:
Bill Nutt, Chairman and CEO
Sean Healey, President and COO
Nate Dalton, Senior Vice President, Affiliate Development and General Counsel
Seth Brennan, Senior Vice President, New Investments
Darrell Crate, Senior Vice President and CFO

using AMG's mutual fund platform, The Managers Funds. We also helped The Managers Funds acquire three retail mutual funds, which broadened the firm's product offerings.

After AMG invests in a new Affiliate, we work with its management partners to accelerate their growth and enhance their profitability. Our goal is to provide them with many of the benefits of scale associated with being part of a broader organization, while preserving their operating autonomy. Initiatives we undertook on behalf of our Affiliates during 2000 included: developing vehicles to reach new distribution channels; identifying and facilitating strategic partnerships to broaden product or other capabilities; recruiting qualified, professional talent; and enhancing technological and operating efficiencies. As an example, we introduced our proprietary Web-based Client Service Platform, which enables Affiliates to offer secure, personalized account and investment information over the Internet.

We made excellent progress in strengthening AMG's position as the leader in helping growing, mid-sized investment management firms solve their long-term succession and continuity issues with an approach that best suits their clients, partners and employees. Through our active calling program, we worked to maintain and enhance existing relationships with prospective Affiliates while introducing our approach to attractive new prospects in North America and Europe.

We believe that for growing, mid-sized investment management firms, AMG offers the best alternative to either selling 100% of a firm or deferring the resolution of important succession and ownership transition issues. More and more, awareness of AMG's superior solution is being enhanced by the success our

Affiliates have achieved after partnering with AMG. Our current Affiliates are AMG's best references: they tell their peers at other firms, particularly prospective new Affiliates, about our role as their partner and the benefits of retained equity and continued autonomy.

By investing in a diverse group of high quality growing firms, AMG is able to generate strong recurring cash flow, produce earnings growth and create value for shareholders. Our flexible capital structure enables us to use the cash flow generated by existing Affiliates to make investments in new ones, repurchase stock or repay debt, as appropriate. With AMG's balanced source of earnings, cash flow from operations and an available credit facility of up to $400 million, we believe that we are well positioned to continue making accretive investments in new Affiliates.

We believe the strong and consistent growth achieved by our Affiliates in 2000, particularly in the face of a challenging market environment, demonstrates the value and strength of our approach. Looking to the future, we continue to focus on our strategy of growth through the internal development of existing Affiliates and additional investments in new Affiliates.

We would like to thank our Affiliates, management, employees and service providers for their contributions to a successful year. Finally, all of us at AMG would like to express our gratitude to our shareholders for their support.

Sincerely,

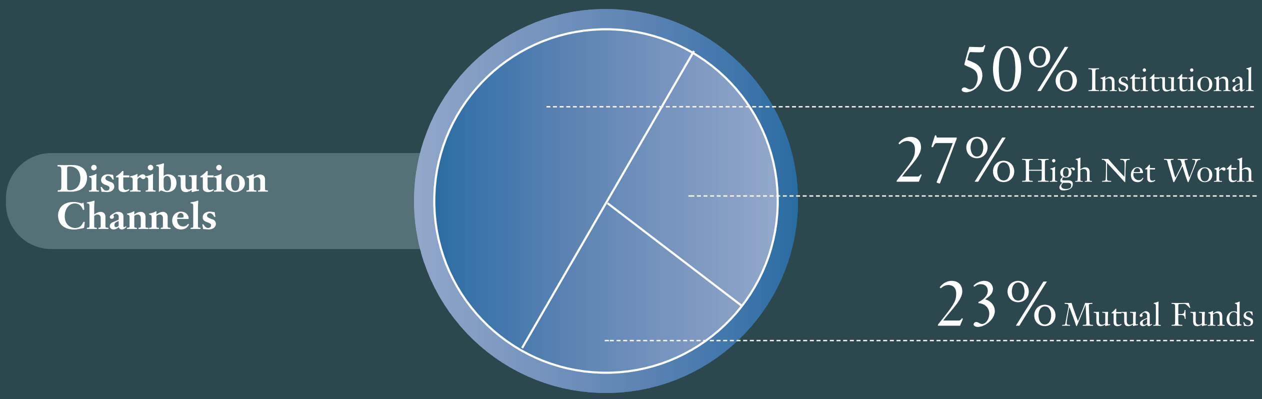
William J. Nutt
Chairman and CEO

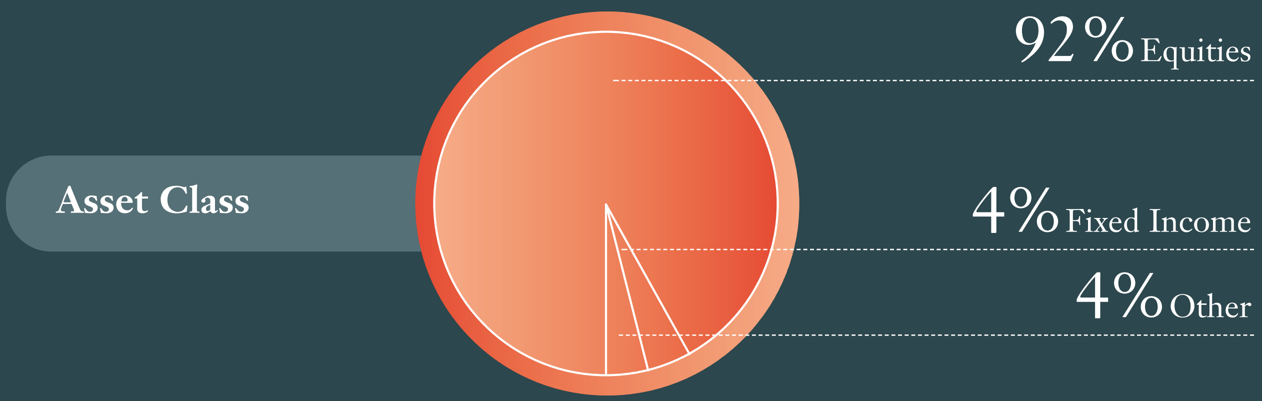
Sean M. Healey
President and COO


AMG

AMG at

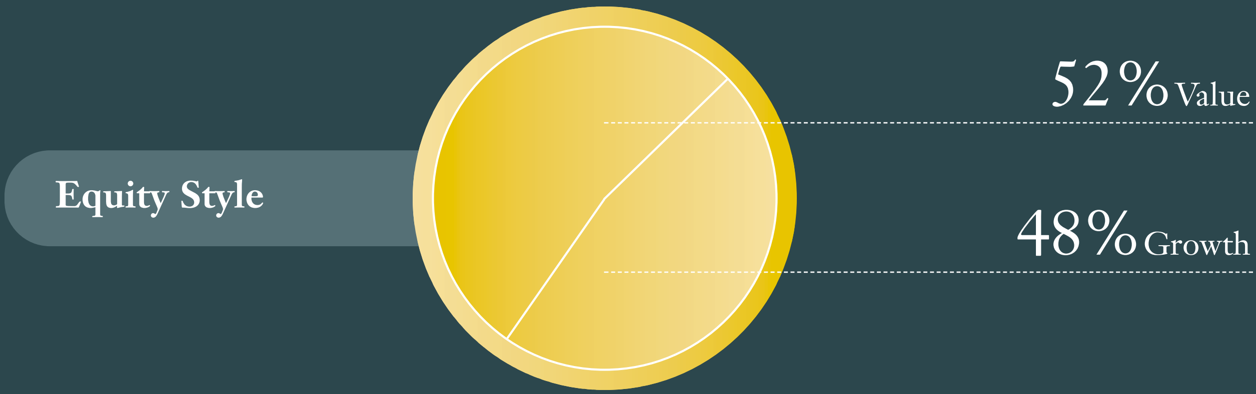
Affiliates grow through the addition and appreciation of their assets under management from client cash flows and investment performance. A number of AMG's Affiliates also have the opportunity for additional revenues from performance-based accounts.

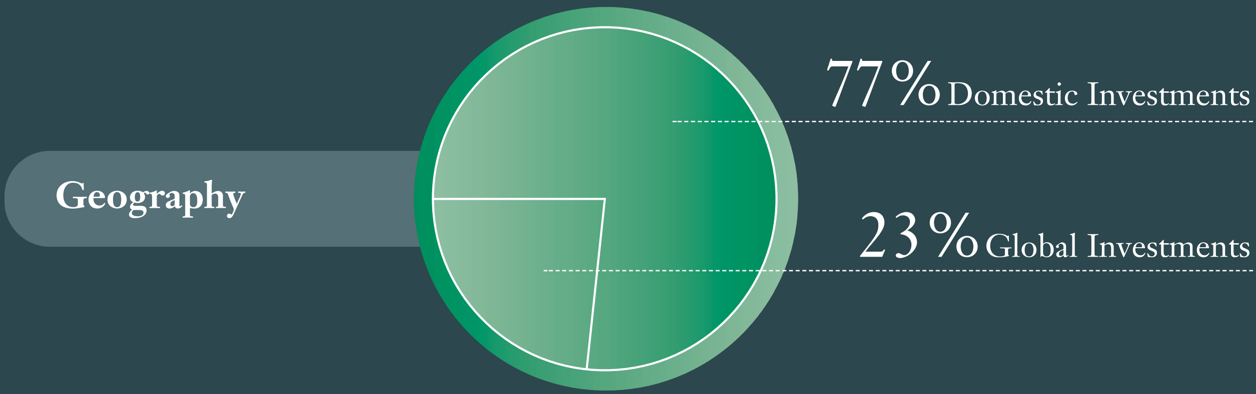




a Glance

At the holding company level, the range of Affiliate investment styles, client types and distribution channels diversifies AMG's sources of earnings in a balanced manner that reduces the risks created by changing market environments and allows participation in the fastest growing segments of the industry.





Figures represent percentages of EBITDA for the year ended December 31, 2000.

AMG offers investors an excellent opportunity to participate in the growth of a diverse group of quality, mid-sized investment management firms. AMG's approach combines the focused investment disciplines and entrepreneurial cultures of successful mid-sized investment firms with the diversification and scale of a $77 billion, 150 product investment management organization. AMG's Affiliates have established solid reputations within their markets, excellent records of performance within their product niches and strong relationships with their clients.

By providing for Affiliate managers to retain substantial direct equity in their firms, AMG ensures that they will have significant incentives to continue growing their businesses. AMG's partnership approach allows individual Affiliates to preserve their

distinctive operating and investment cultures, which are fundamental to their strong performance.

Affiliate Development — While AMG Affiliates are successful on their own, many find that a relationship with the Company helps them increase assets under management and improve operational efficiency.

Strategic Support — AMG's approach to offering strategic assistance to its Affiliates is based on two principles. First, AMG believes that its Affiliates are in the best position to determine their ultimate direction. Second, AMG believes that the holding company has the expertise and scale to identify issues and opportunities for Affiliates, and to help act on them. There is strategic value in leveraging the capabilities of many Affiliates by helping them acquire smaller investment management firms or divisions of firms. As an example of this kind of transaction, in 2000, AMG sourced, financed and structured the acquisition of Smith Breeden Associates, Inc.'s retail business by an AMG Affiliate, The Managers Funds.

***Broadening Distribution* —** AMG also believes there is an opportunity to use the expertise and scale of the holding company to help Affiliates access new distribution channels. AMG's 1999 acquisition of The Managers Funds was an attractive investment on its own, and it also provides a mutual fund platform enabling our Affiliates with predominantly institutional clients to access the retail mutual fund market without incurring large infrastructure costs. Since the acquisition of The Managers Funds, AMG has created the Managers AMG family of funds, and three Affiliates – Essex, Frontier and First Quadrant – have launched mutual funds using this platform.

Tweedy,
Browne
Company LLC

TWEEDY, BROWNE COMPANY LLC

Investment Style: "Graham and Dodd" Value Equity

- Based in New York and London, Founded in 1920
- Domestic and Global Products
- High Net Worth, Institutional, Mutual Funds and Private Partnerships
- Named International Fund Manager of the Year for 2000 by Morningstar, Inc.®
- $8 Billion in Assets Under Management

focus

Economies of Scale and Enhanced Technology — AMG's approach is to offer Affiliates the advantages of scale where they exist, but to avoid interfering with their distinct operating and investment cultures. Through its Affiliate development activities, AMG seeks to provide a range of business-enhancing opportunities for Affiliates, while allowing them to decide which ones are most appropriate for their firms. In 2000, AMG introduced its Web-based Client Service Platform, which allows each Affiliate to customize its client service Internet presence. Features include secure access to account and portfolio information. Affiliates that provide such information through our platform will

ESSEX

ESSEX INVESTMENT MANAGEMENT COMPANY, LLC

Investment Style: Aggressive Growth Equity

- Based in Boston, Founded in 1976
- Seven Growth Equity Products
- Institutional, High Net Worth and Private Partnerships
- $11 Billion in Assets Under Management

employ leading-edge technology and save money and time by customizing our offering rather than developing their own. AMG also recently introduced its Affiliate Intranet as a forum for identifying and promoting best practices and enhancing communications among Affiliates. In addition, many Affiliates now rely upon AMG for help with accounting, taxes or other back-office functions. Ultimately, the goal is to provide Affiliates with an array of exciting, cost-effective tools to enhance their growth and to form a strong partnership in order to take advantage of new opportunities.

Strategy for New Investments — AMG seeks continued growth through accretive investments in new Affiliates selected from among the best mid-sized asset management firms. There is a large universe of firms with assets under management between $500 million and $15 billion – more than 1,300 in the United States, Canada and the United Kingdom alone – and AMG is actively identifying and building relationships with the most promising among them. AMG believes that high quality mid-sized firms with

a focused investment discipline, strong track record and entrepreneurial commitment to growth provide extremely attractive investment opportunities.

AMG invests in its Affiliates using a proven structure that is tailored to the particular goals of each firm, its principals and their clients. AMG generally purchases between 51% and 70% of the equity of a firm, and its managers hold the remaining interest. Typically, as a result of an investment by AMG, an Affiliate's equity is more broadly distributed among the management partners, providing both senior and junior managers the motivation to increase the value of their equity through ongoing superior investment performance and client service.

In contrast to the outright acquisition of an investment firm, AMG's approach, by preserving equity incentives for Affiliate management, aligns the long-term interests of the new Affiliate, its clients and AMG. This approach also provides a mechanism

growth

whereby Affiliate managers can individually realize the value of their retained equity and subsequent generations of management can obtain equity in the firm. Finally, in order to maintain the unique culture of the firm, managers retain autonomy over their operations through the use of a customized revenue sharing agreement. As a result, clients benefit from a smooth transition with uninterrupted focus on investment performance and client service, while AMG and its management partners benefit from the continued growth of the firm.

RORER
ASSET MANAGEMENT, LLC

RORER ASSET MANAGEMENT, LLC

Investment Style: Relative Value Equity

- Based in Philadelphia, Founded in 1978
- Large and Mid-Cap Value Products
- High Net Worth and Institutional
- Participates in 40 Brokerage Distribution Programs
- $12 Billion in Assets Under Management

AMG's innovative approach is most attractive to principals of successful mid-sized firms who believe they can produce future growth and, therefore, seek to retain direct equity while implementing a succession plan. These principals – often the founders of their firms – choose AMG as their preferred partner because its business model preserves the autonomy and unique investment culture that makes their firms successful. The AMG model ensures continuity of management, offers principals a degree of liquidity and provides incentives for future generations of managers. Many principals of mid-sized firms also recognize the benefits of being affiliated with a larger organization that offers the range of strategic and operating support that AMG can provide.

Financial Strength — AMG's strong recurring cash flow is an important source of its earnings growth. The Company's structure allows its share of the cash flow from Affiliates to be used to finance new investments, repurchase stock or repay debt, as appropriate. AMG seeks to invest in Affiliates on terms that are accretive to Cash EPS.

FRONTIER CAPITAL MANAGEMENT

FRONTIER CAPITAL MANAGEMENT COMPANY, LLC

Investment Style: "Growth at a Reasonable Price" Equity

- Based in Boston, Founded in 1980
- Ten Investment Products
- Institutional, High Net Worth and Private Partnerships
- $5 Billion in Assets Under Management

(Cash EPS is the Company's reported EPS figure plus the non-cash charges for depreciation and amortization of intangible assets which arise from the use of the purchase method of accounting. The Company considers Cash EPS to be the most meaningful indicator of growth in shareholder value.) Because the addition of incremental new Affiliates has almost no impact on AMG's fixed expenses, the corresponding revenue increase can add immediately to cash flow.

AMG's efficient balance sheet management is an important element of its financial strength. With a credit facility of up to $400 million, the Company maintains ample capacity to fund new investments while enhancing its return on equity with the use of moderate financial leverage. The diversity of cash flow from Affiliates limits AMG's exposure to any single investment style or market sector and helps the Company obtain financing on attractive terms.

THE MANAGERS FUNDS

THE MANAGERS FUNDS LLC

Investment Style: Growth and Value Equity, International Equity and Fixed Income

- Based in Norwalk, Connecticut, Founded in 1983
- Uses "Manager of Managers" Approach with Sub-Advisers
- Family of 16 No-Load Mutual Funds
- Achieved Nearly 40% Growth from Net Client Cash Flows in 2000
- Platform for "Managers AMG Funds" Sub-Advised by AMG Affiliates
- $4 Billion in Assets Under Management

AMG Affiliates

Affiliates	Burridge	Davis Hamilton Jackson	Essex
Investment Style	• Growth Equity	• Growth Equity • Fixed Income • Balanced	• Growth Equity • Fixed Income • Balanced • U.S. Hedge
Overview	The Burridge Group LLC is composed of two divisions: Burridge Growth Partners, located in Chicago, and Sound Capital Partners, located in Seattle. The Burridge division invests in companies with superior projected earnings growth and utilizes proven valuation disciplines. The Sound division integrates top-down economic analysis with fundamental research-driven security selection. Investment decisions are based on disciplined, fundamental company analysis.	Founded in 1988 by Robert C. Davis and Jack R. Hamilton, Davis Hamilton Jackson & Associates, L.P. employs a research-driven, quantitative approach in its stock selection process and follows a well-defined sell discipline. In its fixed income investments, the firm seeks high current return and low overall volatility.	Founded in 1976 by Joseph C. McNay, Essex Investment Management Company, LLC employs fundamental research combined with active portfolio management. The Essex investment philosophy is based on the principle that a company's management team, business model, earnings growth and profitability will drive its future price performance. Identifying "franchise opportunities," Essex believes, will help achieve superior investment returns.
Client Type	• Corporate, Taft-Hartley and public pension plans • Foundations and endowments • Individuals • Wrap accounts	• Corporate accounts and retirement plans • Public and Taft-Hartley funds • Foundations and endowments • Mutual fund sub-adviser	• Corporate accounts • Public and Taft-Hartley funds • Foundations and endowments • Mutual fund sub-adviser • Domestic and offshore private partnerships
Location	Chicago, Illinois and Seattle, Washington	Houston, Texas	Boston, Massachusetts
Date of AMG's Investment	December 1996	December 1998	March 1998

	First Quadrant	Frontier	GeoCapital	Gofen and Glossberg
	• Tactical Asset Allocation • Equity • Quantitative • Currency and Options	• Growth Equity • Balanced • Long/Short	• Growth Equity • Special Situations	• Customized Portfolios • Equity • Fixed Income
	First Quadrant, L.P. specializes in asset allocation, equity style management and option overlays on a global basis. Employing a highly disciplined quantitative methodology to guide its investment strategy, First Quadrant seeks to add value by assessing relative valuations across major segments of the portfolio: among asset classes, across global markets, among equity styles and in currency allocation.	Founded in 1980, Frontier Capital Management Company, LLC's highly disciplined stock selection process is driven by intensive internal research that targets companies with prospects for above-average earnings growth over extended time periods. The basic premise of the Frontier investment philosophy is that growth must be purchased at a reasonable price.	Founded in 1979, GeoCapital, LLC invests in companies that create and market new technologies and services, and in "special situation" companies with undervalued or unrecognized assets or earnings. The firm believes that the combination of these two types of investments in a single portfolio can lessen the market risks, while providing the superior returns of investing in small companies.	Founded in 1932, Gofen and Glossberg, L.L.C. provides highly customized investment advice. The firm emphasizes fundamental security analysis and seeks to generate superior returns over a multi-year period by owning high-quality, growing companies with distinctive franchises.
	• Domestic and international corporate and public pension plans • Foundations and endowments • Domestic and offshore private partnerships • Japanese joint venture distribution arrangement	• Public and private pension and profit sharing plans • Foundations and endowments • Taft-Hartley accounts • Domestic and offshore private partnerships • High net worth individuals	• Corporations • Retirement programs • Foundations • High net worth individuals • Private partnerships	• Individuals and trusts • Corporations • Employee benefit plans • Foundations and endowments • Banks and insurance companies
	Pasadena, California and London, England	Boston, Massachusetts	New York, New York	Chicago, Illinois
	March 1996	January 2000	September 1997	May 1997

Hartwell	Managers	Paradigm	Renaissance
• Growth Equity • Balanced	• Equity • Fixed Income	• Quantitative Equity	• Growth Equity • Tactical Asset Allocation • Fixed Income • Balanced
Founded in 1961, J.M. Hartwell Limited Partnership employs a fundamental, bottom-up approach to investing in large- and small-capitalization growth companies. The firm uses a rigorous and disciplined stock selection process to identify companies with strong business and financial characteristics. The portfolio style is one of long-term investing.	The Managers Funds LLC is the adviser to two families of no-load mutual funds, The Managers Funds and Managers AMG Funds. The firm selects sub-advisers for The Managers Funds from the universe of institutional investment managers. The Managers AMG Funds are sub-advised by AMG's Affiliates.	Paradigm Asset Management Company, L.L.C. combines active management insights with quantitative tools for risk control. It begins by identifying a set of superior active managers in each style. The process then takes the aggregate portfolios of these superior investors and, using a sophisticated optimizer, arrives at a smaller portfolio of stocks with identical risk and return characteristics.	A recognized leader in quantitatively-based investment management strategies, Renaissance Investment Management utilizes disciplined quantitative techniques in conjunction with traditional, growth-biased fundamental analysis to identify investment opportunities within and among asset classes.
• Foundations • High net worth individuals • Corporate accounts • Wrap accounts	• Mutual Funds	• Institutions	• Corporations • Foundations and endowments • Taft-Hartley funds • High net worth individuals • Wrap accounts
New York, New York	Norwalk, Connecticut	New York, New York	Cincinnati, Ohio
May 1994	April 1999	May 1995	November 1995

	Rorer	Skyline	Systematic	Tweedy, Browne
	• Value Equity • Fixed Income • Balanced	• Value Equity	• Value Equity	• Value Equity
	Established in 1978, Rorer Asset Management, LLC employs a highly disciplined relative value investment process pioneered by its founder, Edward C. Rorer, to reduce performance volatility while seeking excellent risk-adjusted returns across investment cycles.	Skyline Asset Management, L.P. uses a bottom-up investment philosophy that is supported by fundamental in-house research to provide clients with a distinct style of small-cap value investment.	Systematic Financial Management, L.P. ("SFM") employs a research-driven, team-based approach in portfolio management, utilizing extensive qualitative fundamental analysis and innovative quantitative techniques. SFM invests in undervalued companies with excellent valuations, strong cash flow and earnings characteristics, and specific catalysts in place that SFM believes will increase investors' value.	Founded in 1920, Tweedy, Browne Company LLC employs a value-oriented investment approach advocated by Benjamin Graham to investing in global and domestic equities. The firm seeks to invest in companies trading at a substantial discount to their true business value while emphasizing a long-term, low-turnover strategy grounded in individual stock selection. Tweedy, Browne has a research office in London.
	• Individuals, estates and trusts • Corporations • Pension and profit sharing plans • Charitable institutions • Taft-Hartley funds • Wrap accounts	• Mutual funds • Foundations and endowments • Corporate pension and profit sharing plans • Individuals, families and trusts	• Corporate and public retirement plans • Foundations and endowments • Taft-Hartley retirement plans • Individuals, families and trusts • Wrap accounts	• Institutions • Individuals • Private partnerships • Offshore funds • Mutual funds
	Philadelphia, Pennsylvania	Chicago, Illinois	Teaneck, New Jersey	New York, New York and London, England
	January 1999	August 1995	May 1995	October 1997

FINANCIAL INFORMATION

Management's Discussion and Analysis of Financial Condition and Results of Operations

FORWARD-LOOKING STATEMENTS

When used in this Annual Report and in our future filings with the Securities and Exchange Commission, in our press releases and in oral statements made with the approval of an authorized officer, the words or phrases "will likely result," "are expected to," "will continue," "is anticipated," "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 those discussed under the caption "Business—Cautionary Statements," which are set forth in our 2000 Annual Report on Form 10-K, that could cause actual results to differ materially from historical earnings and those presently anticipated or projected. We wish to caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made. We wish to advise readers that the factors under the caption "Business—Cautionary Statements" in the 2000 Annual Report on Form 10-K could affect our financial performance and could cause our actual results for future periods to differ materially from any opinions or statements expressed with respect to future periods in any current statements.

OVERVIEW

We buy and hold equity interests in mid-sized investment management firms (our "Affiliates") and currently derive all of our revenues from those firms. We hold investments in 15 Affiliates that in aggregate managed $77.5 billion in assets at December 31, 2000. Our most recent investment was in Frontier Capital Management Company, LLC in January 2000.

We have a revenue sharing arrangement with each of our Affiliates which allocates a specified percentage of revenues, typically 50–70%, for use by management of that Affiliate in paying operating expenses, including salaries and bonuses, which we refer to as the "Operating Allocation." The remaining portion of revenues of each such Affiliate, typically 30–50%, is referred to as the "Owners' Allocation," and is allocated to the owners of that Affiliate (including AMG), generally in proportion to their ownership of the Affiliate. In certain cases our profit distribution is paid to us in the form of a guaranteed payment for the use of our capital or a license fee, which in each case is paid from the Owners' Allocation. One of the purposes of our revenue sharing arrangements is to provide ongoing incentives for the managers of these Affiliates by allowing them:

- to participate in the growth of their firm's revenues, which may increase their compensation from the Operating Allocation, and profit distributions from the Owners' Allocation; and
- to control operating expenses, thereby increasing the portion of the Operating Allocation which is available for growth initiatives and compensation.

Under the revenue sharing arrangements, the managers of our Affiliates have incentives both to increase revenues of the Affiliate (thereby increasing the Operating Allocation and their share of the Owners' Allocation) and to control expenses of the Affiliate (thereby increasing the excess Operating Allocation).

The revenue sharing arrangements allow us to participate in the revenue growth of our Affiliates because we receive a portion of the additional revenue as our share of the Owners' Allocation. However, we participate in that growth to a lesser extent than the managers of our Affiliates, because we do not share in the growth of the Operating Allocation.

Under the organizational documents of the Affiliates, the allocations and distributions of cash to us generally take priority over the allocations and distributions to the other owners of the Affiliates. This further protects us if there are any expenses in excess of the Operating Allocation of an Affiliate. Thus, if an Affiliate's expenses exceed its Operating Allocation, the excess expenses first reduce the portion of the Owners' Allocation allocated to the Affiliate's management owners, until that portion is eliminated, and then reduce the portion allocated to us. Any such reduction in our portion of the Owners' Allocation is required to be paid back to us out of future Affiliate management Owners' Allocation. Unlike all other Affiliates, The Managers Funds LLC is not subject to a revenue sharing arrangement since we own substantially all of the firm. As a result, we participate fully in any increase or decrease in the revenues or expenses of Managers.

The portion of our Affiliates' revenues which is included in their Operating Allocation and retained by them to pay salaries, bonuses and other operating expenses, as well as the portion of our Affiliates' revenues which are included in their Owners' Allocation and distributed to us and the other owners of the Affiliates, are included as "revenues" in our Consolidated Statements of Operations. The expenses of our Affiliates which are paid out of the Operating Allocation, as well as our holding company expenses which we pay out of the amounts of the Owners' Allocation which we receive from the Affiliates, are both included in "operating expenses" on our Consolidated Statements of Operations. The portion of our Affiliates' revenues which is allocated to owners of the Affiliates other than us through their share of Owners'

Allocation is included in "minority interest" on our Consolidated Statements of Operations.

Our revenues are generally derived from the provision of investment management services for fees by our Affiliates. Investment management fees (or "asset-based fees") are usually determined as a percentage fee charged on periodic values of a client's assets under management. Certain of the Affiliates bill advisory fees for all or a portion of their clients based upon assets under management valued at the beginning of a billing period ("in advance"). Other Affiliates bill advisory fees for all or a portion of their clients based upon assets under management valued at the end of the billing period ("in arrears"), while mutual fund clients are billed based upon daily assets. Advisory fees billed in advance will not reflect subsequent changes in the market value of assets under management for that period. Conversely, advisory fees billed in arrears will reflect changes in the market value of assets under management for that period. In addition, several of the Affiliates charge performance-based fees to certain of their clients; these performance-based fees result in payments to the applicable Affiliate based on levels of investment performance achieved. While the Affiliates bill performance-based fees at various times throughout the year, the greatest portion of these fees have historically been billed in the fourth quarter in any given year. All references to "assets under management" include assets directly managed as well as assets underlying overlay strategies (which we call "overlay assets"), which employ futures, options or other derivative securities to achieve a particular investment objective.

Our level of profitability will depend on a variety of factors including principally:

- the level of Affiliate revenues, which is dependent on the ability of our existing and future Affiliates to maintain or increase assets under management by maintaining their existing investment advisory relationships and fee structures, marketing their services successfully to new clients and obtaining favorable investment results;
- a variety of factors affecting the securities markets generally, which could potentially result in considerable increases or decreases in the assets under management at our Affiliates;
- the receipt of Owners' Allocation, which is dependent on the ability of our existing and future Affiliates to maintain certain levels of operating profit margins;
- the availability and cost of the capital with which we finance our existing and new investments;
- our success in attracting new investments and the terms upon which such transactions are completed;
- the level of intangible assets and the associated amortization expense resulting from our investments;
- the level of expenses incurred for holding company operations, including compensation for its employees; and
- the level of taxation to which we are subject.

In addition, our profitability will depend upon fees paid on the basis of investment performance at certain Affiliates. Fees based on investment performance are inherently dependent on investment results, and therefore may vary substantially from year to year. In particular, performance-based fees were of an unusual magnitude in 1998 and 1999, but were not as significant in 2000, and may not recur even to the same magnitude as 2000 in future years, if at all. In addition, while the performance-based fee contracts of our Affiliates apply to investment management services in a range of investment management styles and securities market sectors, such contracts may be concentrated in certain styles and sectors. For example, in 1999 we benefited from a concentration of such products in technology sectors which performed well in that year but have declined significantly since that time. To the extent such contracts are concentrated within styles or sectors, they are subject to the continuing impact of fluctuating securities prices in such styles and sectors as well as the performance of the relevant Affiliates.

As described above, our revenue is largely from fees based upon our Affiliates' assets under management, and as of the end of 2000 in excess of 90% of that revenue was derived from the equity asset class. As a result, our revenue is impacted by the performance of the equity markets as a whole. Through the end of the first quarter of 2001, market indices such as the Dow Jones Industrial Average and the NASDAQ Composite Index had declined significantly. As with many financial services firms, our results in the first quarter of 2001 will be affected adversely by these broad market declines, and our results in the future would be affected adversely by further market declines.

Our investments have been accounted for using the purchase method of accounting under which goodwill is recorded for the excess of the purchase price for the acquisition of interests in Affiliates over the fair value of the net assets acquired, including acquired client relationships. As a result of our investments, intangible assets, consisting of acquired client relationships and goodwill, constitute a substantial percentage of our consolidated assets. As of December 31, 2000, our total assets were approximately $793.7 million, of which approximately $199.4 million consisted of acquired client relationships and $444.1 million consisted of goodwill.

The amortization period for intangible assets for each investment is assessed individually, with amortization periods for our investments to date ranging from seven to 28 years in the case of acquired client relationships and 15 to 35 years in the case of goodwill. In determining the amortization period for intangible assets acquired, we consider a number of factors including:

- the firm's historical and potential future operating performance and rate of attrition among clients;
- the stability and longevity of existing client relationships;
- the firm's recent, as well as long-term, investment performance;
- the characteristics of the firm's products and investment styles;
- the stability and depth of the firm's management team; and
- the firm's history and perceived franchise or brand value.

We regularly perform an evaluation of intangible assets on an investment-by-investment basis to determine whether there has been any impairment in their carrying value or their useful lives. If impairment is indicated, then the carrying amount of intangible assets, including goodwill, will be reduced to their fair values.

As a result of our investments, amortization expense, which is a non-cash charge, has historically represented a significant percentage of our expenses. In February 2001, the Financial Accounting Standards Board released a proposed accounting standard that, if adopted, would change the accounting for goodwill. If the standard is adopted, goodwill would no longer be amortized. Since goodwill amortization represented 60% of total intangible amortization expense in the year ended December 31, 2000, under similar circumstances in the future our net income and earnings per share may be higher for this reason. There can be no assurance that this standard will be adopted in its proposed form, or at all.

Even if the pending accounting changes occur, intangible amortization (related to acquired client relationships) will continue to be a material component of our operating expenses. Accordingly, we believe it is significant to distinguish amortization expense and other non-cash expenses (principally depreciation) from other operating expenses since these expenses do not require the use of cash. We have provided additional supplemental information in this report for "cash" related earnings as an addition to, but not a substitute, for measures of financial performance under generally accepted accounting principles. Our additional measures of "cash" related earnings are:

- Cash Net Income (net income plus depreciation and amortization), which we believe is useful to investors as an indicator of funds available to the Company, which may be used to make new investments, repay debt obligations, repurchase shares of Common Stock or pay dividends on our Common Stock (although the Company has no current plans to pay dividends);
- EBITDA (earnings before interest expense, income taxes, depreciation and amortization), which we believe is useful to investors as an indicator of our ability to service debt, make new investments and meet working capital requirements; and
- EBITDA Contribution (EBITDA plus our holding company operating expenses), which we believe is useful to investors as an indicator of funds available from our Affiliates' operations to service debt, make new investments and meet working capital requirements.

Assets under management were $77.5 billion at December 31, 2000 versus $82.0 billion at December 31, 1999. The decrease in assets under management during the year resulted from the net loss of low-fee overlay assets of $7.4 billion, principally from the loss of two passive overlay asset accounts. Negative investment performance of $2.6 billion also contributed to the decrease. These decreases were partially offset by our new investments ($5.2 billion of assets under management at the time of investment), including our investment in Frontier Capital Management Company, LLC, and positive net client cash flows of directly managed assets of $238.7 million.

RESULTS OF OPERATIONS

Year Ended December 31, 2000 as Compared to Year Ended December 31, 1999

We had net income of $56.7 million for the year ended December 31, 2000 compared to net income of $72.2 million for the year ended December 31, 1999. The decrease in net income resulted primarily from lower performance-based fees, partially offset by internal growth of existing Affiliates and our investment in Frontier.

Total revenues for the year ended December 31, 2000 were $458.7 million, a decrease of $60.0 million from the year ended December 31, 1999. Revenues (excluding performance-based fees) grew 38% for the year ended December 31, 2000 as compared to the year ended December 31, 1999. The decrease in total revenues resulted from an unusual magnitude of performance-based fees realized in 1999 which did not recur at this level in 2000. Revenues from performance-based fees represented approximately 5% of total revenues for the year ended December 31, 2000 compared to approximately 39% of total revenues for the year ended December 31, 1999. The decrease in performance-based fees in 2000 when compared to 1999 was partially offset by the growth in asset-based fees at our existing Affiliates and from revenues from our investment in Frontier.

Total operating expenses decreased by $21.8 million to $284.3 million for the year ended December 31, 2000 over the year ended December 31, 1999. Compensation and related expenses decreased by $43.1 million to $174.7 million. Amortization of intangible assets increased by $4.2 million to $26.4 million, selling, general and administrative expenses increased by $15.0 million to $68.2 million, and other operating expenses increased by $1.4 million to $10.3 million. The decrease in operating expenses was principally a result of the net decrease in Affiliates' Operating Allocation due to the decrease in performance-based fees, partially offset by the increase in mutual fund distribution expenses resulting from the acquisition of The Managers Funds LLC in 1999 and the subsequent growth in Managers' revenues and related distribution expenses in 2000. The increase in amortization expense was principally the result of our investment in Frontier.

Investment and other income decreased by $12.0 million to $2.3 million for the year ended December 31, 2000 over the year ended December 31, 1999, as a result of the significant levels of income recognized from our interests in Affiliate investment partnerships in 1999 that did not recur in 2000.

Minority interest decreased by $20.9 million to $65.3 million for the year ended December 31, 2000 over the year ended December 31, 1999, primarily as a result of the decrease in performance-based fees earned in 2000, partially offset by the growth in asset-based fees and our investment in Frontier.

Interest expense increased by $4.0 million to $15.8 million for the year ended December 31, 2000 over the year ended December 31, 1999. The increase in interest expense was the result of an increase in the weighted average debt outstanding under our credit facility and increases in LIBOR interest rates. The increase in weighted average debt outstanding was attributable to our investment in Frontier and the repurchase of Common Stock, partially offset by debt repayments from cash flows from operations.

Income tax expense was $39.0 million for the year ended December 31, 2000 compared to $56.7 million for the year ended December 31, 1999. The change in income tax expense was related principally to the decrease in income before taxes in the year ended December 31, 2000, as well as a decrease in our effective tax rate from 44% to 41%. The effective tax rate decreased in 2000 as a result of stockholder approval of an incentive compensation plan which increased allowable compensation deductions, among other initiatives.

EBITDA decreased by $24.4 million to $142.4 million for the year ended December 31, 2000 over the year ended December 31, 1999, resulting from the decrease in performance-based fees, partially offset by the growth in asset-based fees at our existing Affiliates and our investment in Frontier.

Cash Net Income decreased by $10.6 million to $87.7 million for the year ended December 31, 2000 over the year ended December 31, 1999 as a result of the factors affecting net income as described above, excluding the changes in depreciation and amortization during the year.

Year Ended December 31, 1999 as Compared to Year Ended December 31, 1998

We had net income of $72.2 million for the year ended December 31, 1999 compared to net income of $25.6 million for the year ended December 31, 1998. The increase in net income resulted primarily from a substantial increase in performance-based fees earned by several Affiliates (principally Essex Investment Management Company, LLC), as well as growth in asset-based fees resulting from positive investment performance. In addition, the investments we made in 1998 and 1999 contributed significantly to our growth. We invested in Essex in March 1998, Davis Hamilton Jackson & Associates, L.P. in December 1998, Rorer Asset Management, LLC in January 1999 and Managers in April 1999 and included their results from the respective dates of investment.

Total revenues for the year ended December 31, 1999 were $518.7 million, an increase of $280.2 million over the year ended December 31, 1998. The increase in revenues resulted from a substantial increase in performance-based fees earned by several Affiliates, as well as growth in asset-based fees resulting from positive investment performance and investments in new Affiliates. Revenues from performance-based fees increased from approximately 18% of total revenues for the year ended December 31, 1998 to approximately 39% of total revenues for the year ended December 31, 1999. The increase in performance-based fees was primarily the result of performance-based fee contracts in place at Essex.

Total operating expenses increased by $160.4 million to $306.1 million for the year ended December 31, 1999 over the year ended December 31, 1998. Compensation and related expenses increased by $130.1 million to $217.8 million, amortization of intangible assets increased by $4.8 million to $22.2 million, selling, general and administrative expenses increased by $21.6 million to $53.3 million, and other operating expenses increased by $2.6 million to $8.9 million. The growth in operating expenses was principally a result of an increase in Affiliates' Operating Allocation due to a substantial increase in performance-based fees earned by several Affiliates, growth in asset-based fees resulting from positive investment performance and investments in new Affiliates.

Investment and other income increased by $12.0 million to $14.2 million for the year ended December 31, 1999 over the year ended December 31, 1998, substantially from the significant levels of income recognized from our interests in Affiliate investment partnerships in 1999.

Minority interest increased by $47.4 million to $86.2 million for the year ended December 31, 1999 over the year ended December 31, 1998, primarily as a result of the increase in Affiliates' Owners' Allocation due to a substantial increase in performance-based fees earned by several Affiliates, growth in asset-based fees resulting from positive investment performance and investments in new Affiliates.

Interest expense decreased by $1.8 million to $11.8 million for the year ended December 31, 1999 over the year ended December 31, 1998. The reduction in interest expense resulted from repayments of senior bank debt with the net proceeds from our public offering of Common Stock in March 1999 and cash flow from ongoing operations, and was partially offset by borrowings related to new investments. In addition, interest expense decreased due to the favorable impact of the public offering on our LIBOR margin as well as a favorable interest rate environment.

Income tax expense was $56.7 million for the year ended December 31, 1999 compared to $17.0 million for the year ended December 31, 1998. The change in income tax expense was related principally to the increase in income before taxes in the year ended December 31, 1999.

EBITDA increased by $90.5 million to $166.8 million for the year ended December 31, 1999 over the year ended December 31, 1998, resulting from a substantial increase in performance-based fees earned by several Affiliates, growth in asset-based fees resulting from positive investment performance and investments in new Affiliates.

Cash Net Income increased by $52.6 million to $98.3 million for the year ended December 31, 1999 over the year ended December 31, 1998 as a result of the factors affecting net income as described above, excluding the changes in depreciation and amortization during the year.

LIQUIDITY AND CAPITAL RESOURCES

We have met our cash requirements primarily through borrowings from our banks, cash generated by operating activities and the issuance of equity securities in public transactions. Our principal uses of cash have been to make investments, repay indebtedness, pay income taxes, repurchase shares, support our and our Affiliates' operating activities and for working capital purposes. We expect that our principal use of funds for the foreseeable future will be for additional investments, distributions to management owners of Affiliates, repayments of debt, including interest on outstanding debt, payment of income taxes, repurchase of shares, capital expenditures, additional investments in existing Affiliates, including our purchase of management owners' retained equity and for working capital purposes.

At December 31, 2000, we had outstanding borrowings of senior debt under our credit facility of $151 million and the ability to borrow an additional $179 million. We have the option, with the consent of our lenders, to increase the facility by another $70 million to a total of $400 million. Our outstanding senior debt balance as of December 31, 2000 decreased by 13% as compared to December 31, 1999 as a result of repayments from cash flow from ongoing operations, partially offset by borrowings for our investment in Frontier Capital Management Company, LLC in January 2000 and repurchases of shares of our Common Stock. During 2000, we began a cash management program with our Affiliates that enabled us to access their excess cash through intercompany loans. At December 31, 2000, we had $52.8 million in such loans. Because these loans are intercompany balances, they are eliminated for accounting purposes and are not reflected on our Consolidated Balance Sheet.

Our borrowings under the credit facility are collateralized by pledges of all of our interests in Affiliates (including all interests which are directly held by us, as well as all interests which are indirectly held by us through wholly-owned subsidiaries), which interests represent substantially all of our assets. Our credit facility contains a number of negative covenants, including those which generally prevent us and our Affiliates from: (i) incurring additional indebtedness (other than subordinated indebtedness), (ii) creating any liens or encumbrances on material assets (with certain enumerated exceptions), (iii) selling assets outside the ordinary course of business or making certain fundamental changes with respect to our businesses, including a restriction on our ability to transfer interests in any majority owned Affiliate if, as a result of such transfer, we would own less than 51% of such firm, and (iv) declaring or paying dividends on our Common Stock. Our credit facility bears interest at either LIBOR plus a margin or the Prime Rate plus a margin. We pay a commitment fee on the daily unused portion of the facility. In order to partially offset our exposure to changing interest rates we have entered into interest rate hedging contracts, as discussed below in "Market Risk." The credit facility matures during December 2002.

In order to provide the funds necessary for us to continue to acquire interests in investment management firms, including in our existing Affiliates upon the sale by our Affiliates' management owners of their retained equity to us, it will be necessary for us to incur, from time to time, additional long-term bank debt and/or issue equity or debt securities, depending on market and other conditions. There can be no assurance that such additional financing will be available on terms acceptable to us, if at all.

Net cash flow from operating activities was $153.7 million, $89.1 million and $45.4 million for the years ended December 31, 2000, 1999 and 1998, respectively. The increase in net cash flow from operating activities from 1999 to 2000 resulted principally from the operating cash flows received in 2000 from performance-based fees earned in the fourth quarter of 1999, and the internal growth of our existing Affiliates. The increase in net cash flow from operating activities from 1998 to 1999 resulted principally from the internal growth of our existing Affiliates.

Net cash flow used in investing activities was $111.7 million, $112.9 million and $72.7 million for the years ended December 31, 2000, 1999 and 1998, respectively. Of these amounts, $104.4 million, $103.5 million and $66.6 million, respectively, were used to make investments in Affiliates.

In January 2000, we acquired our ownership interest in Frontier. In 1999, we acquired our ownership interests in Rorer and Managers and repaid a note issued in the fourth quarter of 1998 in connection with our Davis Hamilton investment. In 1998, we acquired a portion of our ownership interest in Essex with cash. All of these investments were financed with borrowings under our credit facility.

Net cash flow used in financing activities was $64.0 million in the year ended December 31, 2000 versus net cash flow from financing activities of $54.0 million and $28.2 million for the years ended December 31, 1999 and 1998, respectively. The principal sources of cash from financing activities over the last three years have been borrowings under our credit facility and the public offering of our Common Stock. The uses of cash from financing activities during this period were for the repayment of debt and for the repurchase of Common Stock.

During the year ended December 31, 2000, we repurchased 1,261,800 shares of Common Stock at an average price of $38.68, with borrowings under our credit facility. The repurchases were pursuant to two share repurchase programs authorized by our Board of Directors in October 1999 and April 2000. Each program authorized us to repurchase up to five percent of our issued and outstanding shares of Common Stock in open market transactions, with the timing of purchases and the amount of stock purchased determined at our discretion.

INTEREST RATE SENSITIVITY

Our revenues are derived primarily from fees that are based on the values of assets managed. Such values are affected by changes in the broader financial markets which are, in part, affected by changing interest rates. We cannot predict the effects that interest rates or changes in interest rates may have on either the broader financial markets or our Affiliates' assets under management and associated fees.

With respect to our debt financing, we are exposed to potential fluctuations in the amount of interest expense resulting from changing interest rates. We seek to offset such exposure in part by entering into interest rate hedging contracts. See "Market Risk."

MARKET RISK

We use interest rate hedging contracts to manage market exposures associated with our variable rate debt by creating offsetting market exposures. These instruments are not held for trading purposes. In the normal course of operations, we also face risks that are either non-financial or non-quantifiable. Such risks principally include country risk, credit risk and legal risk, and are not represented in the analysis that follows.

As of December 31, 2000, we were a party, with two major commercial banks as counterparties, to $185 million notional amount of interest rate hedging contracts which were linked to the three-month LIBOR rate. We closed these contracts in January 2001 in conjunction with the implementation of the new derivative accounting standard, Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("FAS 133").

During February 2001, we became a party, with two major commercial banks as counterparties, to $50 million notional amount of interest rate hedging contracts that are linked to the three-month LIBOR rate. Under these contracts, we have agreed to exchange the difference between fixed-rate and floating rate interest amounts calculated by reference to the $50 million notional amount. These contracts cap LIBOR rates on the notional amounts at rates ranging between 4.95% and 5.14%.

We have performed a sensitivity analysis assuming a hypothetical 10% adverse movement in the three-month LIBOR rates, sustained for three months. As of March 23, 2001, this analysis indicated that this hypothetical movement in three-month LIBOR rates would have resulted in no loss in earnings.

There can be no assurance that we will continue to maintain such hedging contracts at their existing levels of coverage or that the amount of coverage maintained will cover all of our indebtedness outstanding at any such time. Therefore, there can be no assurance that the hedging contracts will meet their overall objective of reducing our interest expense. In addition, there can be no assurance that we will be successful in obtaining hedging contracts in the future on our existing or any new indebtedness.

RECENT ACCOUNTING DEVELOPMENTS

In June 1998, the FASB issued FAS 133, which standardizes the accounting for derivative instruments by requiring that all derivatives be recognized as assets and liabilities and be measured at fair value. In June 1999, Statement of Financial Accounting Standards No. 137, "Accounting for Derivative Instruments and Hedging Activities—Deferral of Effective Date of FASB Statement No. 133—an amendment to FASB Statement 133" deferred the effective date of FAS 133 to financial statements for fiscal years beginning after June 15, 2000.

We adopted the standard on January 1, 2001, and the adoption did not materially impact our consolidated financial statements.

In February 2001, the FASB released a proposed accounting standard that, if adopted, would change the accounting for goodwill. If the standard is adopted, goodwill would no longer be amortized. Since goodwill represented 60% of total intangible amortization expense in the year ended December 31, 2000, under similar circumstances in the future our net income and earnings per share may be higher for this reason. There can be no assurance that this standard will be adopted in its proposed form, or at all.

ECONOMIC AND MARKET CONDITIONS

Prior to the year 2000, the investment management sector has been one of the fastest growing sectors in the financial services industry. As one example of this growth, the assets under management of mutual funds increased at a compound annual growth rate of 25% from 1995 to the end of 1999, to a total of $6.8 trillion at the end of 1999, according to the Investment Company Institute. In 2000 and in the first quarter of 2001, however, the investment management sector (like the financial services industry more broadly) experienced extraordinary volatility, as equity markets declined significantly.

Domestic and foreign economic conditions and general trends in business and finance, among other factors, affect the financial markets and businesses operating in the securities industry. We cannot guarantee that broader market performance will be favorable in the future. A continued decline in the financial markets or a lack of sustained growth may result in a corresponding decline in our Affiliates' performance and may cause our Affiliates to experience declining assets under management and/or fees, which would reduce cash flow distributable to us.

INTERNATIONAL OPERATIONS

First Quadrant Limited, a sister company to First Quadrant, L.P., is organized and headquartered in London, England. Tweedy, Browne Company LLC, based in New York, also maintains a research office in London. In the future, we may seek to invest in other investment management firms which are located and/or conduct a significant part of their operations outside of the United States. There are certain risks inherent in doing business internationally, such as changes in applicable laws and regulatory requirements, difficulties in staffing and managing foreign operations, longer payment cycles, difficulties in collecting investment advisory fees receivable, political instability, fluctuations in currency exchange rates, expatriation controls and potential adverse tax consequences. There can be no assurance that one or more of such factors will not have a material adverse effect on First Quadrant Limited or other non-U.S. investment management firms in which we may invest in the future and, consequently, on our business, financial condition and results of operations.

INFLATION

We do not believe that inflation or changing prices have had a material impact on our results of operations.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

For quantitative and qualitative disclosures about market risk affecting us, see "Market Risk."

Selected Historical Financial Data

Set forth below are selected financial data for the last five years. This data should be read in conjunction with, and is qualified in its entirety by reference to, the financial statements and accompanying notes included elsewhere in this Annual Report.

	For the Years Ended December 31,				
(in thousands, except as indicated and per share data)	1996	1997	1998	1999	2000
Statement of Operations Data					
Revenues	$ 50,384	$ 95,287	$238,494	$518,726	$458,708
Net income (loss)	(2,372)	(8,368)	25,551	72,188	56,656
Earnings per share—diluted	(5.49)	(1.02)	1.33	3.18	2.49
Average shares outstanding—diluted(1)	432	8,236	19,223	22,693	22,749
Other Financial Data					
Assets under management					
(at period end, in millions)	$ 19,051	$ 45,673	$ 57,731	$ 82,041	$ 77,523
EBITDA(2)	10,524	20,044	76,312	166,801	142,378
Cash Net Income(3)	7,596	10,201	45,675	98,318	87,676
Cash earnings per share—diluted(4)	17.58	1.24	2.38	4.33	3.85
Balance Sheet Data					
Intangible assets(5)	$ 71,472	$392,573	$490,949	$571,881	$643,470
Total assets	101,335	456,990	605,334	909,073	793,730
Senior debt	33,400	159,500	212,500	174,500	151,000
Stockholders' equity(1)	36,989	259,740	313,655	477,986	493,910

(1) In connection with our initial public offering in November 1997, we raised $189 million from the sale of 8.7 million shares of Common Stock and 8.0 million shares of preferred stock converted to shares of Common Stock. In March 1999, we raised $102.3 million from our sale of an additional 4.0 million shares of Common Stock.

(2) EBITDA represents earnings before interest expense, income taxes, depreciation and amortization and extraordinary items. We believe EBITDA may be useful to investors as an indicator of our ability to service debt, make new investments and meet working capital requirements. EBITDA is not a measure of financial performance under generally accepted accounting principles and should not be considered an alternative to net income as a measure of operating performance or to cash flows from operating activities as a measure of liquidity. EBITDA, as calculated by us, may not be consistent with computations of EBITDA by other companies.

(3) Cash Net Income represents net income plus depreciation and amortization and extraordinary items. We believe that this measure may be useful to investors as another indicator of funds available to the Company, which may be used to make new investments, repay debt obligations, repurchase shares of Common Stock or pay dividends on Common Stock. Cash Net Income is not a measure of financial performance under generally accepted accounting principles and should not be considered an alternative to net income as a measure of operating performance or to cash flows from operating activities as a measure of liquidity. Cash Net Income, as calculated by us, may not be consistent with computations of Cash Net Income by other companies. Cash Net Income as defined herein has historically been referred to by us as "EBITDA as Adjusted."

(4) Cash earnings per share represents Cash Net Income divided by average shares outstanding. Cash earnings per share for 1996 and 1997 shown above are before extraordinary items related to the replacement of AMG's previous credit facilities with new facilities.

(5) Intangible assets have increased with each new investment in an Affiliate. From our inception through December 31, 2000, we made investments in fifteen Affiliates.

Report of Independent Accountants

To the Board of Directors and Stockholders of
Affiliated Managers Group, Inc.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, comprehensive income, changes in stockholders' equity and cash flows present fairly, in all material respects, the financial position of Affiliated Managers Group, Inc. at December 31, 1999 and 2000, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

Boston, Massachusetts
March 28, 2001

Consolidated Balance Sheets

(in thousands)	December 31, 1999	December 31, 2000
ASSETS		
Current assets:		
Cash and cash equivalents	$ 53,879	$ 31,612
Investment advisory fees receivable	239,383	66,126
Other current assets	6,705	15,448
Total current assets	299,967	113,186
Fixed assets, net	12,321	15,346
Equity investment in Affiliate	1,563	1,816
Acquired client relationships, net of accumulated amortization of $23,202 in 1999 and $33,775 in 2000	186,499	199,354
Goodwill, net of accumulated amortization of $36,103 in 1999 and $51,939 in 2000	385,382	444,116
Other assets	23,341	19,912
Total assets	$909,073	$793,730
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$170,299	$ 86,800
Total current liabilities	170,299	86,800
Senior bank debt	174,500	151,000
Deferred taxes	25,346	31,907
Other long-term liabilities	1,346	2,636
Subordinated debt	800	800
Total liabilities	372,291	273,143
Minority interest	58,796	26,677
Commitments and contingencies	—	—
Stockholders' equity:		
Common stock	235	235
Additional paid-in capital	405,883	407,057
Accumulated other comprehensive income	(55)	(342)
Retained earnings	83,857	140,513
	489,920	547,463
Less treasury shares	(11,934)	(53,553)
Total stockholders' equity	477,986	493,910
Total liabilities and stockholders' equity	$909,073	$793,730

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statements of Operations

(in thousands, except share and per share data)	For the Years Ended December 31, 1998	1999	2000
Revenues	$238,494	$518,726	$458,708
Operating expenses:			
Compensation and related expenses	87,669	217,780	174,710
Amortization of intangible assets	17,417	22,229	26,409
Depreciation and other amortization	2,707	3,901	4,611
Selling, general and administrative	31,643	53,251	68,216
Other operating expenses	6,278	8,906	10,327
	145,714	306,067	284,273
Operating income	92,780	212,659	174,435
Non-operating (income) and expenses:			
Investment and other income	(2,251)	(14,237)	(2,264)
Interest expense	13,603	11,764	15,750
	11,352	(2,473)	13,486
Income before minority interest and income taxes	81,428	215,132	160,949
Minority interest	(38,843)	(86,225)	(65,341)
Income before income taxes	42,585	128,907	95,608
Income taxes	17,034	56,719	38,952
Net income	$ 25,551	$ 72,188	$ 56,656
Earnings per share—basic	$1.45	$3.25	$2.54
Earnings per share—diluted	$1.33	$3.18	$2.49
Average shares outstanding—basic	17,582,900	22,180,112	22,307,476
Average shares outstanding—diluted	19,222,831	22,693,016	22,748,595

Consolidated Statements of Comprehensive Income

(in thousands)	For the Years Ended December 31, 1998	1999	2000
Net income	$25,551	$72,188	$56,656
Foreign currency translation adjustment, net of taxes	46	(71)	(287)
Comprehensive income	$25,597	$72,117	$56,369

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statements of Cash Flows

(in thousands)	For the Years Ended December 31, 1998	1999	2000
Cash flow from operating activities:			
Net income	$ 25,551	$ 72,188	$ 56,656
Adjustments to reconcile net income to net cash flow from operating activities:			
Amortization of intangible assets	17,417	22,229	26,409
Depreciation and other amortization	2,707	3,901	4,611
Deferred income tax provision	10,410	14,936	6,561
Changes in assets and liabilities:			
Decrease (increase) in investment advisory fees receivable	(38,053)	(163,262)	182,241
Increase in other current assets	(2,766)	(1,260)	(8,639)
Decrease (increase) in non-current other receivables	—	(10,779)	5,064
Increase (decrease) in accounts payable, accrued expenses and other liabilities	22,489	116,518	(87,073)
Increase (decrease) in minority interest	7,669	34,648	(32,119)
Cash flow from operating activities	45,424	89,119	153,711
Cash flow used in investing activities:			
Purchase of fixed assets	(4,313)	(6,050)	(6,235)
Costs of investments, net of cash acquired	(66,577)	(103,500)	(104,438)
Distributions received from Affiliate equity investment	675	550	428
Increase in other assets	(750)	(486)	(699)
Loans to employees	(1,700)	(3,453)	(786)
Cash flow used in investing activities	(72,665)	(112,939)	(111,730)
Cash flow from (used in) financing activities:			
Borrowings of senior bank debt	78,800	155,800	193,500
Repayments of senior bank debt	(47,800)	(171,800)	(217,000)
Repayments of notes payable to related parties	—	(22,000)	—
Issuances of equity securities	(62)	101,536	8,412
Repurchase of stock	(2,612)	(9,322)	(48,858)
Debt issuance costs	(163)	(179)	(15)
Cash flow from (used in) financing activities	28,163	54,035	(63,961)
Effect of foreign exchange rate changes on cash flow	47	(71)	(287)
Net increase (decrease) in cash and cash equivalents	969	30,144	(22,267)
Cash and cash equivalents at beginning of year	22,766	23,735	53,879
Cash and cash equivalents at end of year	$ 23,735	$ 53,879	$ 31,612
Supplemental disclosure of cash flow information:			
Interest paid	$ 11,780	$ 11,654	$ 17,025
Income taxes paid	3,358	20,576	52,415
Supplemental disclosure of non-cash financing activities:			
Stock issued in acquisitions	30,992	—	—
Notes issued in acquisitions	22,000	—	—
Conversion of convertible stock to common stock	—	30,992	—
Common stock received for the exercise of stock options	—	—	1,027
Capital lease obligations for fixed assets	—	—	816

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statements of Changes in Stockholders' Equity

(dollars in thousands)	Preferred Shares	Common Shares	Convertible Shares	Preferred Stock	Common Stock	Convertible Stock	Additional Paid-In Capital	Retained Earnings	Treasury Shares	Treasury Shares at Cost
December 31, 1997	—	17,703,617	—	$ —	$177	$ —	$273,475	$ (13,912)	—	$ —
Issuance of common stock	—	—	—	—	—	—	(62)	—	—	—
Issuance of convertible stock	—	—	1,750,942	—	—	30,992	—	—	—	—
Purchase of common stock	—	—	—	—	—	—	—	—	(172,000)	(2,612)
Net income	—	—	—	—	—	—	—	25,551	—	—
Other comprehensive income	—	—	—	—	—	—	—	46	—	—
December 31, 1998	—	17,703,617	1,750,942	—	177	30,992	273,413	11,685	(172,000)	(2,612)
Issuance of common stock	—	4,000,938	—	—	40	—	101,496	—	—	—
Conversion of convertible stock	—	1,750,942	(1,750,942)	—	18	(30,992)	30,974	—	—	—
Purchase of common stock	—	—	—	—	—	—	—	—	(346,900)	(9,322)
Net income	—	—	—	—	—	—	—	72,188	—	—
Other comprehensive income	—	—	—	—	—	—	—	(71)	—	—
December 31, 1999	—	23,455,497	—	—	235	—	405,883	83,802	(518,900)	(11,934)
Issuance of common stock	—	63,547	—	—	—	—	1,227	—	328,938	8,266
Purchase of common stock	—	—	—	—	—	—	(53)	—	(1,287,401)	(49,885)
Net income	—	—	—	—	—	—	—	56,656	—	—
Other comprehensive income	—	—	—	—	—	—	—	(287)	—	—
December 31, 2000	—	23,519,044	—	$ —	$235	$ —	$407,057	$140,171	(1,477,363)	$(53,553)

The accompanying notes are an integral part of the consolidated financial statements.

Notes to Consolidated Financial Statements

1. BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Operations

The principal business activity of Affiliated Managers Group, Inc. ("AMG" or the "Company") is to acquire and hold principally majority equity interests in mid-sized investment management firms ("Affiliates"). AMG's Affiliates operate in one industry segment, that of providing investment management services, primarily in the United States and Europe, to mutual funds, partnerships and institutional and individual clients.

Affiliates are either organized as limited partnerships, general partnerships or limited liability companies. AMG has contractual arrangements with each Affiliate (other than The Managers Funds LLC) whereby a percentage of revenues is allocable to fund Affiliate operating expenses, including compensation (the Operating Allocation), while the remaining portion of revenues (the Owners' Allocation) is allocable to AMG and the other partners or members, generally with a priority to AMG. Unlike all other Affiliates, Managers is not subject to a revenue sharing arrangement since AMG owns substantially all of the firm. As a result, the Company participates fully in any increase or decrease in the revenues or expenses of Managers.

Accounting for Investments

These consolidated financial statements include the accounts of AMG and each Affiliate in which AMG has a controlling interest. In each such instance, AMG is, directly or indirectly, the sole general partner (in the case of Affiliates which are limited partnerships), sole managing general partner (in the case of the Affiliate which is a general partnership) or sole manager member (in the case of Affiliates which are limited liability companies). For Affiliate operations consolidated into these financial statements, the portion of the Owners' Allocation allocated to owners other than AMG is included in minority interest in the Consolidated Statement of Operations. Minority interest on the Consolidated Balance Sheet includes capital and undistributed Owners' Allocation owned by the owners of consolidated Affiliates.

Investments where AMG or an Affiliate does not hold a controlling interest are currently accounted for under the equity method of accounting and AMG's portion of net income is included in investment and other income. In the future, new investments may be accounted for under the cost method if AMG or the Affiliate owns less than a 20% interest and does not exercise significant influence. Under the cost method, AMG's portion of net income is not included in the Consolidated Statement of Operations and dividends are recorded when, and if, declared. However, charges are recognized in the Consolidated Statement of Operations if events or circumstances indicate a permanent impairment of the carrying value.

All material intercompany balances and transactions have been eliminated. All dollar amounts except per share data in the text and tables herein are stated in thousands unless otherwise indicated. Certain reclassifications have been made to prior years' financial statements to conform with the current year's presentation.

Segment Reporting

The Company has adopted Statement of Financial Accounting Standards (FAS) 131, "Disclosures about Segments of an Enterprise and Related Information." FAS 131 superseded FAS 14, "Financial Reporting for Segments of a Business Enterprise," replacing the "industry segment" approach with the "management" approach. The management approach designates the internal organization that is used by management for making operating decisions and assessing performance as the source of the Company's reportable segments. FAS 131 also requires disclosures about products and services, geographic areas, and major customers. The adoption of FAS 131 did not affect results of operations or financial position (see Note 15).

Revenue Recognition

The Company's consolidated revenues represent advisory fees billed monthly, quarterly and annually by Affiliates for managing the assets of clients. Asset-based advisory fees are recognized monthly as services are rendered and are based upon a percentage of the market value of client assets managed. Any fees collected in advance are deferred and recognized as income over the period earned. Performance-based advisory fees are recognized when earned based upon either the positive difference between the investment returns on a client's portfolio compared to a benchmark index or indices, or an absolute percentage of gain in the client's account.

Cash and Cash Equivalents

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents. Cash equivalents are stated at cost, which approximates market value due to the short-term maturity of these investments.

Fixed Assets

Equipment and other fixed assets are recorded at cost and depreciated using the straight-line method over their estimated useful lives ranging from three to five years. Leasehold improvements are amortized over the shorter of their estimated useful lives or the term of the lease.

Acquired Client Relationships and Goodwill

The purchase price for the acquisition of interests in Affiliates is allocated based on the fair value of assets acquired, primarily acquired client relationships. In determining the allocation of purchase price to acquired client relationships, the Company analyzes the net present value of each acquired Affiliate's existing client relationships based on a number of factors including: the Affiliate's historical and potential future operating performance; the Affiliate's historical and potential future rates of attrition among existing clients; the stability and longevity of existing client relationships; the Affiliate's recent, as well as long-term, investment performance; the characteristics of the firm's products and investment styles; the stability and depth of the Affiliate's management team and the Affiliate's history and perceived franchise or brand value. The cost assigned to acquired client relationships is amortized using the straight-line method over periods ranging from seven to 28 years. The expected useful lives of acquired client relationships are analyzed separately for each acquired Affiliate and determined based on an analysis of the historical and potential future attrition rates of each Affiliate's existing clients, as well as a consideration of the specific attributes of the business of each Affiliate.

The excess of purchase price for the acquisition of interests in Affiliates over the fair value of net assets acquired, including acquired client relationships, is classified as goodwill. Goodwill is amortized using the straight-line method over periods ranging from 15 to 35 years. In determining the amortization period for goodwill, the Company considers a number of factors including: the firm's historical and potential future operating performance; the characteristics of the firm's clients, products and investment styles; as well as the firm's history and perceived franchise or brand value.

Unamortized intangible assets, including acquired client relationships and goodwill, are periodically re-evaluated and if experience subsequent to the acquisition indicates that there has been an impairment in value, other than temporary fluctuations, an impairment loss is recognized. Management evaluates the recoverability of unamortized intangible assets quarterly for each acquisition using estimates of undiscounted cash flows factoring in known or expected trends, future prospects and other relevant information. If impairment is indicated, the Company measures its loss as the excess of the carrying value of the intangible assets for each Affiliate over its fair value determined using valuation models such as discounted cash flows and market comparables. Fair value in such cases was determined using market comparables based on revenues, cash flow and assets under management. No impairment loss was recorded for any of the three years ended December 31, 2000.

As further described in Note 9, the Company periodically purchases additional equity interests in Affiliates from minority interest owners. Resulting payments made to such owners are generally considered purchase price for such acquired interests. The estimated cost of purchases from equity holders who have been awarded equity interests in connection with their employment is accrued, net of estimated forfeitures, over the service period as equity-based compensation.

Debt Issuance Costs

Debt issuance costs incurred in securing credit facility financing are capitalized and subsequently amortized over the term of the credit facility using the effective interest method.

Interest Rate Hedging Agreements

The Company periodically enters into interest rate hedging agreements to hedge against potential increases in interest rates on the Company's outstanding borrowings. The Company's policy is to accrue amounts receivable or payable under such agreements as reductions or increases in interest expense, respectively.

Income Taxes

In accordance with FAS 109, the Company recognizes deferred tax assets and liabilities for the expected consequences of temporary differences between the financial statement basis and tax basis of the Company's assets and liabilities. A deferred tax valuation allowance is established if, in management's opinion, it is more likely than not that all or a portion of the Company's deferred tax assets will not be realized.

Foreign Currency Translation

The assets and liabilities of non-U.S. based Affiliates are translated into U.S. dollars at the exchange rates in effect as of the balance sheet date. Revenues and expenses are translated at the average monthly exchange rates then in effect.

Equity-Based Compensation Plans

FAS 123, "Accounting for Stock-Based Compensation," encourages but does not require adoption of a fair value-based accounting method for stock-based compensation arrangements which include stock option grants and grants of equity based interests in Affiliates to certain limited partners or members. An entity may continue to apply Accounting Principles Board Opinion No. 25 ("APB 25") and related interpretations, provided the entity discloses its pro forma net income and earnings per share as if the fair value-based method had been applied in measuring compensation cost. The Company continues to apply APB 25 and related interpretations.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts included in the financial statements and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

Recent Accounting Developments

In June 1998, the FASB issued FAS 133, "Accounting for Derivative Instruments and Hedging Activities" for derivative instruments which requires that all derivatives be recognized as assets and liabilities and be measured at fair value. In June 1999, FAS 137, "Accounting for Derivative Instruments and Hedging Activities—Deferral of Effective Date of FASB Statement No. 133—an amendment to FASB Statement 133" deferred the effective date of FAS 133 to financial statements for fiscal years beginning after June 15, 2000. The Company adopted this standard on January 1, 2001, and the adoption did not materially impact its consolidated financial statements.

2. CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash investments and investment advisory fees receivable. The Company maintains cash and cash equivalents, short-term investments and certain off-balance sheet financial instruments with various financial institutions. These financial institutions are located in cities in which AMG and its Affiliates operate. For AMG and certain Affiliates, cash deposits at a financial institution may exceed FDIC insurance limits.

3. FIXED ASSETS AND LEASE COMMITMENTS

Fixed assets consist of the following:

	At December 31, 1999	2000
Office equipment	$ 10,735	$ 12,910
Furniture and fixtures	7,804	8,128
Leasehold improvements	3,872	6,091
Computer software	2,169	3,699
Total fixed assets	24,580	30,828
Accumulated depreciation	(12,259)	(15,482)
Fixed assets, net	$ 12,321	$ 15,346

The Company and its Affiliates lease computer equipment and office space for their operations. At December 31, 2000, the Company's aggregate future minimum payments for operating leases having initial or noncancelable lease terms greater than one year are payable as follows:

Year Ending December 31,	Required Minimum Payments
2001	$7,506
2002	7,045
2003	6,152
2004	4,878
2005	3,456
Thereafter	9,783

Consolidated rent expense for 1998, 1999 and 2000 was $6,278, $8,906 and $10,327, respectively.

In 2000, the Company purchased property in Pride's Crossing, Massachusetts in contemplation of the development of its new corporate headquarters. In connection with the development of the site and the financing of development costs, the Company subsequently transferred the property to an entity held jointly with the financing underwriter. The Company has since entered into a lease agreement with a third party lessor, who has agreed to build the property, arrange financing for the project's costs and lease the completed facility back to the Company. The construction phase is expected to continue through the end of the third quarter of 2001. Lease payments will commence once the construction is complete.

4. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consisted of the following:

	At December 31, 1999	2000
Accounts payable	$ 2,538	$ 1,309
Accrued compensation	126,461	62,992
Accrued income taxes	24,964	2,683
Accrued rent	2,196	2,001
Accrued interest	1,731	369
Deferred revenue	1,774	1,633
Accrued professional services	1,291	1,241
Other	9,344	14,572
	$170,299	$86,800

5. BENEFIT PLANS

The Company has two defined contribution plans consisting of a qualified employee profit-sharing plan covering substantially all of its full-time employees and five of its Affiliates, and a non-qualified plan for certain senior employees. Ten of AMG's other Affiliates have separate defined contribution retirement plans. Under each of the qualified plans, AMG and each Affiliate are able to make discretionary contributions to qualified plan participants up to IRS limits. Consolidated expenses related to both the qualified and non-qualified plans in 1998, 1999 and 2000 were $2,589, $8,728 and $10,759, respectively.

The Company's contribution to the non-qualified plan (the "Plan") was $5,000 and $6,225 for the years ended December 31, 1999 and 2000, respectively. Plan balances are invested equally between the Company's Common Stock and Affiliate investment products. These irrevocable contributions were expensed when contributed and will be distributable to each participant beginning in 2001, with full vesting occurring in 2004. Realized gains on undistributed balances are paid currently to participants. Plan balances that become forfeited upon employee termination are reallocated to the remaining participants in accordance with the terms of the Plan.

6. SENIOR BANK DEBT AND SUBORDINATED DEBT

The Company has a $330 million revolving Credit Facility ("Credit Facility"), which matures in December 2002. The Company has the option, with the consent of its lenders, to increase the facility by another $70 million to a total of $400 million. Interest is payable at rates up to 1.25% over the Prime Rate or up to 2.25% over LIBOR on amounts borrowed. The Company pays a commitment fee of up to ½ of 1% on the daily unused portion of the facility, which amounted to $341, $297 and $252 for the years ended December 31, 1998, 1999 and 2000, respectively. The Company had $151 million outstanding on the Credit Facility at December 31, 2000.

The effective interest rates on the outstanding borrowings were 6.7% and 7.2% at December 31, 1999 and 2000, respectively. All borrowings under the Credit Facility are collateralized by pledges of all capital stock or other equity interests in each AMG Affiliate owned and to be acquired. The credit agreement contains certain financial covenants which require the Company to maintain specified minimum levels of net worth and interest coverage ratios and maximum levels of indebtedness, all as defined in the credit agreement. The credit agreement also limits the Company's ability to pay dividends and incur additional indebtedness.

As of December 31, 2000, the Company was a party, with two major commercial banks as counterparties, to $185 million notional amount of derivative contracts. These contracts were closed in January 2001 in conjunction with the adoption of FAS 133.

During February 2001, the Company became a party with two major commercial banks as counterparties, to $50 million notional amount of swap contracts that are linked to the three-month LIBOR. Under these swaps, the Company has agreed to exchange the difference between fixed-rate and floating rate interest amounts calculated by reference to the $50 million notional amount. These contracts cap interest rates on the notional amounts at rates ranging between 4.95% and 5.14%.

Two of the Company's Affiliates also operate as broker-dealers and must maintain specified minimum amounts of "net capital" as defined in SEC Rule 15c3-1. In connection with this requirement, one Affiliate has $800 of subordinated indebtedness, which qualifies as net capital under the net capital rule, while the second Affiliate maintains no such indebtedness. The subordinated indebtedness is subordinated to claims of general creditors and is secured by notes and marketable securities of certain of this Affiliate's members other than AMG.

7. INCOME TAXES

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

		Year Ended December 31,		
		1998	1999	2000
Federal:	Current	$ —	$35,658	$27,854
	Deferred	10,238	12,762	5,606
State:	Current	6,624	6,125	4,537
	Deferred	172	2,174	955
Provision for income taxes		$17,034	$56,719	$38,952

The effective income tax rate differs from the amount computed on income before income taxes by applying the U.S. federal income tax rate because of the effect of the following items:

	Year Ended December 31,		
	1998	1999	2000
Tax at U.S. federal income tax rate	35%	35%	35%
Nondeductible expenses	2	3	2
State income taxes, net of federal benefit	5	7	4
Valuation allowance	(2)	(1)	—
	40%	44%	41%

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

	December 31,	
	1999	2000
Deferred assets (liabilities):		
State net operating loss carryforwards	$ 1,326	$ 1,281
Intangible amortization	(26,770)	(35,089)
Deferred compensation	—	1,934
Accruals	1,271	1,248
	(24,173)	(30,626)
Valuation allowance	(1,173)	(1,281)
Net deferred income taxes	$(25,346)	$(31,907)

At December 31, 2000, the Company had state net operating loss carryforwards of $31,741 which expire over a period of 15 years beginning in the year 2001. The realization of these carryforwards is dependent on generating sufficient taxable income prior to their expiration. The valuation allowance at December 31, 1999 and 2000 is related to the uncertainty of the realization of these loss carryforwards.

8. 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 unfavorably to the Company or its Affiliates. The Company and its Affiliates establish accruals for matters that are probable and can be reasonably estimated. Management believes that any liability in excess of these accruals upon the ultimate resolution of these matters will not have a material adverse effect on the consolidated financial condition or results of operations of the Company.

9. ACQUISITIONS

2000

On January 18, 2000, the Company acquired an equity interest in Frontier Capital Management Company, LLC, a Boston-based investment manager. AMG financed this investment with a borrowing under its credit facility. The results of Frontier's operations are included in the consolidated results of operations of the Company from its date of acquisition, January 18, 2000.

1999

On January 6, 1999, the Company acquired an equity interest in Rorer Asset Management, LLC, a Philadelphia-based investment adviser. On April 1, 1999, the Company acquired substantially all of the equity interests in The Managers Funds LLC, which then served as the adviser to a family of equity and fixed income no-load mutual funds. AMG financed these two investments with borrowings under its credit facility.

The results of operations of Rorer and Managers are included in the consolidated results of operations of the Company from their respective dates of acquisition, January 6, 1999 and April 1, 1999.

1998

On March 20, 1998, the Company acquired an equity interest in Essex Investment Management Company, LLC. Essex is a Boston-based manager which specializes in investing in growth equities, using a fundamental research driven approach. AMG financed this investment through borrowings under its credit facility and through issuance of shares of its Series C Convertible Non-Voting Stock, for an equity interest in Essex. The Series C Stock is non-voting stock and carries no preferences with respect to dividends or liquidation. Each share of Series C Stock converted into one share of Common Stock on March 20, 1999.

On December 31, 1998, AMG acquired an equity interest in Davis Hamilton Jackson & Associates, L.P. Davis Hamilton is a Houston-based asset management firm with approximately $3.5 billion of assets under management at December 31, 1998. The Company issued notes to close the transaction which were settled on January 4, 1999. AMG financed these two investments with borrowings under its credit facility.

The results of operations of Essex and Davis Hamilton are included in the consolidated results of operations of the Company from their respective dates of acquisition, March 20, 1998 and December 31, 1998.

Purchase Price of Investments

The total purchase price, including cash, notes, common stock and capitalized transaction costs, associated with these investments is allocated as follows:

		December 31,	
	1998	1999	2000
Allocation of Purchase Price:			
Tangible equity, net of cash acquired	$ 3,776	$ 340	$ 6,439
Intangible assets	115,793	103,160	97,999
Total purchase price	$119,569	$103,500	$104,438

Unaudited pro forma data for the years ended December 31, 1999 and 2000 are set forth below, giving consideration to the acquisitions occurring in the respective two-year period as if such transactions occurred as of the beginning of 1999, assuming revenue sharing arrangements had been in effect for the entire period and after making certain other pro forma adjustments.

	Year Ended December 31,	
	1999	2000
Revenues	$550,139	$459,816
Net income	75,465	57,654
Earnings per share—basic	$ 3.40	$ 2.58
Earnings per share—diluted	3.33	2.53

In conjunction with certain acquisitions, the Company has entered into agreements and is contingently liable, upon achievement of specified revenue targets over a five-year period, to make additional purchase payments of up to $25 million plus interest as applicable. These contingent payments, if achieved, will be settled for cash with most coming due beginning January 1, 2002 and will be accounted for as an adjustment to the purchase price of the Affiliate. In addition, subject to achievement of performance goals, certain key Affiliate employees have options to receive additional equity interests in their Affiliates.

As part of all of the Company's operating agreements (except that of Paradigm Asset Management Company, L.L.C.) Affiliate management owners have rights ("Puts"), which require the Company to purchase their retained equity interests at staged intervals. The Company is also obligated to purchase all remaining management owners' interests (each, a "Purchase," and collectively, the "Purchases") in Affiliates upon death, disability or termination of employment. All of the Puts and Purchases would take place based on a multiple of the respective Affiliate's Owners' Allocation but using reduced multiples for terminations for cause or for voluntary terminations occurring prior to agreed upon dates, all as defined in the general partnership, limited partnership or limited liability company agreements of the Affiliates. In addition, to ensure the availability of continued ownership participation to future key employees, the Company has options to repurchase ("Calls") certain retained equity interests in Affiliates owned by partners or members.

The Company's contingent obligations under the Put and Purchase arrangements at December 31, 2000 ranged from $93 million if it is assumed that all such obligations occur due to early resignations or terminations for cause, to $485 million if it is assumed that all such obligations occur due to death, disability or terminations without cause. Assuming the closing of all such Put and Purchase transactions, AMG would own the prospective Owners' Allocation of all interests owned by Affiliate management described above, an amount which totaled approximately $65.3 million in the year ended December 31, 2000.

10. STOCKHOLDERS' EQUITY

Preferred Stock

The Company is authorized to issue up to 5,000,000 shares of Preferred Stock in classes or series and to fix the designations, powers, preferences and the relative, participating, optional or other special rights of the shares of each series and any qualifications, limitations and restrictions thereon as set forth in the Certificate. Any such Preferred Stock issued by the Company may rank prior to the Common Stock as to dividend rights, liquidation preference or both, may have full or limited voting rights and may be convertible into shares of Common Stock.

Common Stock

The Company has 80,000,000 authorized shares of Common Stock with a par value of $0.01 per share. Shares issued and outstanding at December 31, 1999 and 2000, were 22,936,597 and 22,041,681, respectively.

On March 3, 1999, the Company completed a public offering of 5,529,954 shares of Common Stock, of which 4,000,000 shares were sold by the Company and 1,529,954 shares were sold by selling stockholders. AMG used the net proceeds from the offering to reduce indebtedness and did not receive any proceeds from the sale of Common Stock by the selling stockholders.

On April 20, 2000, the Company announced that its Board of Directors had authorized a share repurchase program pursuant to which AMG can repurchase up to five percent of its issued and outstanding shares of Common Stock in open market transactions, with the timing of purchases and the amount of stock purchased determined at the discretion of AMG's management. The Board of Directors authorized a similar repurchase program in 1999. In the year ended December 31, 2000, the Company repurchased 1,261,800 shares of Common Stock at an average price of $38.68. In the year ended December 31, 1999, AMG had repurchased 346,900 shares of Common Stock at an average price of $26.83.

Stock Incentive Plans

The Company has established the 1997 Stock Option and Incentive Plan, under which it is authorized to grant stock options and to grant or sell shares of restricted stock to employees and directors. In 1999, stockholders approved an amendment to increase to 3,250,000 the shares available to be issued under this plan.

The plans are administered by a committee of the Board of Directors. The exercise price of stock options is the fair market value of the Common Stock on the date of grant. The stock options generally vest over periods ranging up to four years and expire ten years after the grant date. In connection with the Company's initial public offering in 1997, the Company granted stock options which were exercisable over seven years, subject to acceleration if the Company achieved certain financial goals. These options became fully vested on December 31, 1999 when the Company achieved these goals.

The following table summarizes the transactions of the Company's stock option plans for the two-year period ended December 31, 2000.

	Number of Shares	Weighted Average Exercise Price
Unexercised options outstanding—		
December 31, 1998	1,171,750	$26.34
Options granted	845,000	28.86
Options exercised	(938)	21.65
Options forfeited	(562)	14.25
Unexercised options outstanding—		
December 31, 1999	2,015,250	$27.40
Options granted	869,000	49.86
Options exercised	(324,225)	21.46
Options forfeited	(100,875)	29.80
Unexercised options outstanding—		
December 31, 2000	2,459,150	$36.02
Exercisable options—		
December 31, 1999	887,750	$24.62
December 31, 2000	1,011,460	$30.84

The following table summarizes information about the Company's stock options at December 31, 2000:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding as of 12/31/00	Weighted Avg. Remaining Contractual Life (years)	Weighted Avg. Exercise Price	Number Exercisable as of 12/31/00	Weighted Avg. Exercise Price
$10-20	2,950	7.8	$14.25	1,825	$14.25
20-30	1,291,700	8.0	27.09	662,075	25.56
30-40	335,500	7.5	34.69	222,560	34.64
40-50	409,000	10.0	47.94	20,000	47.94
50-60	420,000	9.6	53.13	105,000	53.13
	2,459,150	8.6	$36.02	1,011,460	$30.84

Supplemental Disclosure for Equity-Based Compensation

The Company continues to apply APB 25 and related interpretations in accounting for its sales of Restricted Stock, grants of stock options and equity-based interests in Affiliates. FAS 123 defines a fair value method of accounting for the above arrangements whose impact requires disclosure. Under the fair value method, compensation cost is measured at the grant date based on the fair value of the award and is recognized over the expected service period. The required disclosures under FAS 123 as if the Company had applied the new method of accounting are made below.

Had compensation costs for the Company's equity-based compensation arrangements been determined based on the fair value at grant date for awards consistent with the requirements of FAS 123, the Company's net income and net income per share would have been as follows:

	Year Ended December 31, 1998	1999	2000
Net income—as reported	$25,551	$72,188	$56,656
Net income—FAS 123 pro forma	24,408	68,463	48,962
Net income per share—basic—as reported	1.45	3.25	2.54
Net income per share—basic—FAS 123 pro forma	1.39	3.09	2.19
Net income per share—diluted—as reported	1.33	3.18	2.49
Net income per share—diluted—FAS 123 pro forma	1.27	3.02	2.15

The weighted average fair value of options granted in the years ended December 31, 1998, 1999 and 2000 were estimated at $14.24, $15.62 and $26.11 per option, respectively, using the Black-Scholes option pricing model. The following weighted average assumptions were used for the option valuations.

	Year Ended December 31, 1998	1999	2000
Dividend yield	0%	0%	0%
Stock price volatility	60.0%	50.8%	53.3%
Risk-free interest rate	5.38%	5.49%	5.72%
Expected life of options (in years)	7.0	8.4	7.2

11. EARNINGS PER SHARE

The calculation for basic earnings per share is based on the weighted average of common shares outstanding during the period. The following is a reconciliation of the numerators and denominators of the basic and diluted earnings per share computations. Unlike all other dollar amounts in these footnotes, net income in this table is not presented in thousands.

	1998	1999	2000
Numerator:			
Net Income	$25,551,000	$72,188,000	$56,656,000
Denominator:			
Average shares outstanding—basic	17,582,900	22,180,112	22,307,476
Incremental shares for convertible preferred stock	1,376,768	374,174	—
Incremental shares for stock options and unvested restricted stock	263,163	138,730	441,119
Average shares outstanding—diluted	19,222,831	22,693,016	22,748,595
Earnings per share:			
Basic	$1.45	$3.25	$2.54
Diluted	$1.33	$3.18	$2.49

In March 1998, the Company issued 1,750,942 shares of Series C Convertible Stock in completing its investment in Essex Investment Management Company, LLC. Each share converted into one share of Common Stock in March 1999. In March 1999, the Company sold 4,000,000 shares of Common Stock in a public offering.

On May 25, 2000, the Company's shareholders approved an increase in the number of authorized shares of voting Common Stock from 40,000,000 to 80,000,000.

For the years ended December 31, 1998, 1999 and 2000, the Company repurchased a total of 147,000, 346,900 and 1,261,800 shares of Common Stock under various stock repurchase programs.

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company is exposed to market risks brought on by changes in interest rates. Derivative financial instruments are used by the Company to reduce those risks, as explained in this note.

(a) Notional amounts and credit exposures of derivatives

The notional amount of derivatives do not represent amounts that are exchanged by the parties, and thus are not a measure of the Company's exposure. The amounts exchanged are calculated on the basis of the notional or contract amounts, as well as on other terms of the interest rate swap derivatives, and the volatility of these rates and prices.

The Company would be exposed to credit-related losses in the event of nonperformance by the counterparties that issued the financial instruments. The Company does not expect that the counterparties to interest rate swaps will fail to meet their obligations, given their high credit ratings. The credit exposure of derivative contracts is represented by the positive fair value of contracts at the reporting date, reduced by the effects of master netting agreements. The Company generally does not give or receive collateral on interest rate swaps due to its own credit rating and that of its counterparties.

(b) Interest Rate Risk Management

The Company enters into interest rate swaps to reduce exposure to interest rate risk connected to existing liabilities. The Company does not hold or issue derivative financial instruments for trading purposes. Interest rate swaps allow the Company to achieve a level of variable-rate and fixed-rate debt that is acceptable to management, and to cap interest rate exposure. The Company agrees with another party to exchange the difference between fixed-rate and floating rate interest amounts calculated by reference to an agreed notional principal amount.

(c) Fair Value

FAS 107, "Disclosures about Fair Value of Financial Instruments," requires the Company to disclose the estimated fair values for certain of its financial instruments. Financial instruments include items such as loans, interest rate contracts, notes payable and other items as defined in FAS 107.

Fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Quoted market prices are used when available, otherwise, management estimates fair value based on prices of financial instruments with similar characteristics or using valuation techniques such as discounted cash flow models. Valuation techniques involve uncertainties and require assumptions and judgments regarding prepayments, credit risk and discount rates. Changes in these assumptions will result in different valuation estimates. The fair value presented would not necessarily be realized in an immediate sale; nor are there plans to settle liabilities prior to contractual maturity. Additionally, FAS 107 allows companies to use a wide range of valuation techniques; therefore, it may be difficult to compare the Company's fair value information to other companies' fair value information.

The carrying amount of cash and cash equivalents approximates fair value because of the short-term nature of these instruments. The carrying value of notes receivable approximate 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 note. The carrying value of senior bank debt approximates fair value because the debt is a revolving credit facility with variable interest based on three-month LIBOR rates. The fair values of interest rate hedging agreements are quoted market prices based on the estimated amount necessary to terminate the agreements. The fair market values of interest rate hedging agreements were $1,218 and ($1,105) at December 31, 1999 and 2000.

13. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

The following is a summary of the unaudited quarterly results of operations of the Company for 1999 and 2000.

1999	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues	$ 68,127	$ 78,577	$ 85,395	$286,627
Operating income	25,847	30,238	32,254	124,320
Income before income taxes	12,786	16,127	17,722	82,272
Net income	7,544	9,515	10,456	44,673
Earnings per share—diluted	$0.36	$0.41	$0.45	$1.92

2000	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues	$114,798	$110,895	$118,205	$114,810
Operating income	43,935	41,980	43,841	44,679
Income before income taxes	23,415	23,180	24,369	24,644
Net income	13,815	13,677	14,378	14,786
Earnings per share—diluted	$0.60	$0.61	$0.64	$0.65

During the fourth quarter of 2000, the Company experienced decreases in revenues, operating income and income before income taxes from the same period in 1999 due to a substantial decrease in performance-based fees earned by several Affiliates. These fees are earned by the Affiliates when their performance exceeds certain measurements set forth in the advisory agreements with their clients. The substantial decrease was offset somewhat by the growth in asset-based fees resulting from positive net client cash flows.

14. RELATED PARTY TRANSACTIONS

During 1998, the Company initiated an employee loan program. Loans to employees accrue interest at the lower of 6.25% or the Applicable Federal Rate, have a stated 30-year maturity date and are collateralized by real property. Outstanding balances are payable in full generally one year after termination of employment with the Company. At December 31, 1999 and 2000, loans outstanding, including accrued interest, totaled $5.4 million and $5.9 million, respectively.

15. SEGMENT INFORMATION

The Company and its Affiliates provide investment advisory services to mutual funds and individual and institutional accounts. The Company's revenues are generated substantially from providing these investment advisory services to domestic customers.

The Affiliates are all managed by separate Affiliate management teams in accordance with the respective agreements between the Company and each Affiliate. While the Company has determined that each of its Affiliates represents a separate reportable operating segment, because the Affiliates offer comparable investment products and services, have similar customers and distribution channels and operate in a similar regulatory environment, the Affiliates have been aggregated into one reportable segment for financial statement disclosure purposes.

16. EVENTS SUBSEQUENT TO DECEMBER 31, 2000 (UNAUDITED)

As of March 23, 2001, AMG had repurchased 14,000 shares of Common Stock since December 31, 2000 at an average price of $49.85.

Common Stock Information

Market for Registrant's Common Equity and Related Stockholder Matters

Our Common Stock is traded on the New York Stock Exchange (symbol: AMG). The following table sets forth the high and low closing prices as reported on the New York Stock Exchange composite tape during the last two years.

2000	High	Low
First Quarter	\$50	\$33
Second Quarter	45½	31⅜
Third Quarter	64¼	42½
Fourth Quarter	63⅝	44³⁄₁₆
1999		
First Quarter	\$33¹⁄₁₆	\$24
Second Quarter	32¼	25
Third Quarter	31⅜	24⅞
Fourth Quarter	40⁷⁄₁₆	23

The closing price for the shares on the New York Stock Exchange on March 23, 2001 was \$45.80.

From December 31, 2000 to March 23, 2001, we repurchased 14,000 shares of Common Stock at an average price per share of \$49.85 under a share repurchase program authorized by our Board of Directors in April 2000.

As of December 31, 2000 there were 57 stockholders of record. As of March 23, 2001 there were 46 stockholders of record.

We have not declared a dividend with respect to the periods presented. We intend to retain earnings to finance investments in new Affiliates, repay indebtedness, pay interest and income taxes, repurchase our Common Stock when appropriate, and develop our existing business. We do not anticipate paying cash dividends on our Common Stock in the foreseeable future. Our credit facility also prohibits us from making dividend payments to our stockholders. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources."

Shareholder Information

Corporate Offices
Affiliated Managers Group, Inc.
Two International Place
Boston, Massachusetts 02110
(617) 747-3300
www.amg.com

Independent Accountants
PricewaterhouseCoopers LLP
Boston, Massachusetts

Transfer Agent and Registrar
Mellon Investor Services
New York, New York

Stock Exchange Listing
New York Stock Exchange
Ticker Symbol: AMG

Annual Meeting
The Annual Meeting of Stockholders will be held at the offices of Goodwin Procter LLP, Exchange Place, Boston, Massachusetts, on May 30, 2001.

Form 10-K
Copies of the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission may be obtained without charge by writing to the Company at:
Investor Relations
Affiliated Managers Group, Inc.
Two International Place
Boston, Massachusetts 02110

This Annual Report to Stockholders contains forward-looking statements. There are a number of important factors that could cause AMG's actual results to differ materially from those indicated by such forward-looking statements including, but not limited to, those listed elsewhere in this Annual Report and in the Section titled "Business – Cautionary Statements" in the Company's Annual Report on Form 10-K for the year ended December 31, 2000 as filed with the Securities and Exchange Commission.

Board of Directors

William J. Nutt
Chairman and Chief Executive Officer

Richard E. Floor
Partner,
Goodwin Procter LLP

Stephen J. Lockwood
Managing Partner,
Stephen J. Lockwood & Company, LLC

Harold J. Meyerman
Private Investor

Rita M. Rodriguez
Former Director,
Export-Import Bank of the United States

William F. Weld, Esq.
Partner,
Leeds Weld & Company

Executive Officers

William J. Nutt
Chairman and Chief Executive Officer

Sean M. Healey
President and Chief Operating Officer

Seth W. Brennan
Senior Vice President

Darrell W. Crate
Senior Vice President and Chief Financial Officer

Nathaniel Dalton
Senior Vice President, General Counsel and Secretary

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