

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2018

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM TO

Commission file number: 001-35826

Artisan Partners Asset Management Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

45-0969585

(I.R.S. Employer
Identification No.)

875 E. Wisconsin Avenue, Suite 800
Milwaukee, WI

(Address of principal executive offices)

53202

(Zip Code)

(414) 390-6100

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer ☒

Non-accelerated filer ☐

Accelerated filer ☐

Smaller reporting company ☐

Emerging growth company ☐

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

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

The number of outstanding shares of the registrant's Class A common stock, par value \$0.01 per share, Class B common stock, par value \$0.01 per share, and Class C common stock, par value \$0.01 per share, as of October 26, 2018 were 54,019,493, 8,695,249 and 14,228,130, respectively.

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Except where the context requires otherwise, in this report, references to the “Company”, “Artisan”, “we”, “us” or “our” refer to Artisan Partners Asset Management Inc. (“APAM”) and its direct and indirect subsidiaries, including Artisan Partners Holdings LP (“Artisan Partners Holdings” or “Holdings”). On March 12, 2013, APAM closed its initial public offering and related corporate reorganization. Prior to that date, APAM was a subsidiary of Artisan Partners Holdings.

Forward-Looking Statements

This report contains, and from time to time our management may make, forward-looking statements within the meaning of the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. Statements regarding future events and our future performance, as well as management’s current expectations, beliefs, plans, estimates, or projections relating to the future, are forward-looking statements within the meaning of these laws. In some cases, you can identify these statements by forward-looking words such as “may”, “might”, “will”, “should”, “expects”, “intends”, “plans”, “anticipates”, “believes”, “estimates”, “predicts”, “potential” or “continue”, the negative of these terms and other comparable terminology. These forward-looking statements are only predictions based on current expectations and projections about future events. Forward-looking statements are subject to a number of risks and uncertainties, and there are important factors that could cause actual results, level of activity, performance, actions or achievements to differ materially from the results, level of activity, performance, actions or achievements expressed or implied by the forward-looking statements. These factors include: the loss of key investment professionals or senior management, adverse market or economic conditions, poor performance of our investment strategies, change in the legislative and regulatory environment in which we operate, operational or technical errors or other damage to our reputation and other factors disclosed in the Company’s filings with the Securities and Exchange Commission, including those factors listed under the caption entitled “Risk Factors” in Item 1A of the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2017, filed with the SEC on February 21, 2018, which is accessible on the SEC’s website at www.sec.gov. We undertake no obligation to publicly update any forward-looking statements in order to reflect events or circumstances that may arise after the date of this report, except as required by law.

Forward-looking statements include, but are not limited to, statements about:

- our anticipated future results of operations;
- our potential operating performance and efficiency;
- our expectations with respect to future levels of assets under management, including the capacity of our strategies and client cash inflows and outflows;
- our expectations with respect to industry trends and how those trends may impact our business;
- our financing plans, cash needs and liquidity position;
- our intention to pay dividends and our expectations about the amount of those dividends;
- our expected levels of compensation of our employees, including equity compensation;
- our expectations with respect to future expenses and the level of future expenses;
- our expected tax rate, and our expectations with respect to deferred tax assets; and
- our estimates of future amounts payable pursuant to our tax receivable agreements.

Part I — Financial Information

Item 1. Unaudited Consolidated Financial Statements

ARTISAN PARTNERS ASSET MANAGEMENT INC. Unaudited Condensed Consolidated Statements of Financial Condition (U.S. dollars in thousands, except per share amount)

	September 30, 2018	December 31, 2017
ASSETS		
Cash and cash equivalents	\$ 211,431	\$ 137,286
Accounts receivable	76,820	76,693
Investment securities	18,204	4,978
Property and equipment, net	25,562	21,025
Deferred tax assets	433,975	429,212
Restricted cash	629	629
Prepaid expenses and other assets	13,330	13,364
<i>Assets of consolidated investment products</i>		
Cash and cash equivalents	15,543	21,881
Accounts receivable and other	15,760	16,768
Investment assets, at fair value	65,048	115,319
Total assets	<u>\$ 876,302</u>	<u>\$ 837,155</u>
LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS, AND STOCKHOLDERS' EQUITY		
Accounts payable, accrued expenses, and other	\$ 23,381	\$ 23,019
Accrued incentive compensation	82,456	2,911
Borrowings	199,255	199,129
Amounts payable under tax receivable agreements	368,986	385,413
<i>Liabilities of consolidated investment products</i>		
Accounts payable, accrued expenses, and other	12,970	8,180
Investment liabilities, at fair value	21,685	47,857
Total liabilities	<u>708,733</u>	<u>666,509</u>
Commitments and contingencies		
Redeemable noncontrolling interests	30,681	62,581
Common stock		
Class A common stock (\$0.01 par value per share, 500,000,000 shares authorized, 54,019,493 and 50,463,126 shares outstanding at September 30, 2018 and December 31, 2017, respectively)	540	505
Class B common stock (\$0.01 par value per share, 200,000,000 shares authorized, 8,695,249 and 11,922,192 shares outstanding at September 30, 2018 and December 31, 2017, respectively)	87	119
Class C common stock (\$0.01 par value per share, 400,000,000 shares authorized, 14,228,130 and 13,184,527 shares outstanding at September 30, 2018 and December 31, 2017, respectively)	142	132
Additional paid-in capital	90,609	147,910
Retained earnings (deficit)	38,678	(37,870)
Accumulated other comprehensive income (loss)	(1,624)	(873)
Total Artisan Partners Asset Management Inc. stockholders' equity	128,432	109,923
Noncontrolling interest - Artisan Partners Holdings	8,456	(1,858)
Total stockholders' equity	<u>136,888</u>	<u>108,065</u>
Total liabilities, redeemable noncontrolling interests, and stockholders' equity	<u>\$ 876,302</u>	<u>\$ 837,155</u>

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

ARTISAN PARTNERS ASSET MANAGEMENT INC.
Unaudited Consolidated Statements of Operations
(U.S. dollars in thousands, except per share amounts)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenues				
Management fees	\$ 212,738	\$ 204,540	\$ 634,733	\$ 584,565
Performance fees	50	16	2,359	338
Total revenues	\$ 212,788	\$ 204,556	\$ 637,092	\$ 584,903
Operating Expenses				
Compensation and benefits				
Salaries, incentive compensation and benefits	102,741	98,525	314,709	288,200
Pre-offering related compensation - share-based awards	—	—	—	12,678
Total compensation and benefits	102,741	98,525	314,709	300,878
Distribution, servicing and marketing	6,566	7,603	20,422	22,269
Occupancy	5,337	3,579	13,564	10,745
Communication and technology	9,556	8,180	27,182	25,204
General and administrative	6,751	6,039	20,515	20,642
Total operating expenses	130,951	123,926	396,392	379,738
Total operating income	81,837	80,630	240,700	205,165
Non-operating income (expense)				
Interest expense	(2,823)	(2,870)	(8,445)	(8,671)
Net investment gain (loss) of consolidated investment products	238	1,549	9,464	1,567
Net investment income	1,386	178	2,500	504
Net gain (loss) on the tax receivable agreements	251	501	251	501
Total non-operating income (expense)	(948)	(642)	3,770	(6,099)
Income before income taxes	80,889	79,988	244,470	199,066
Provision for income taxes	14,172	21,479	38,444	49,169
Net income before noncontrolling interests	66,717	58,509	206,026	149,897
Less: Net income attributable to noncontrolling interests - Artisan Partners Holdings	24,021	27,234	73,380	72,191
Less: Net income attributable to noncontrolling interests - consolidated investment products	178	610	6,848	614
Net income attributable to Artisan Partners Asset Management Inc.	\$ 42,518	\$ 30,665	\$ 125,798	\$ 77,092
Basic and diluted earnings per share				
	\$ 0.77	\$ 0.61	\$ 2.27	\$ 1.48
Basic and diluted weighted average number of common shares outstanding	49,399,553	45,890,291	48,607,837	44,068,172
Dividends declared per Class A common share	\$ 0.60	\$ 0.60	\$ 2.59	\$ 2.16

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

ARTISAN PARTNERS ASSET MANAGEMENT INC.
Unaudited Consolidated Statements of Comprehensive Income
(U.S. dollars in thousands)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income before noncontrolling interests	\$ 66,717	\$ 58,509	\$ 206,026	\$ 149,897
Other comprehensive income (loss), net of tax				
Unrealized gain (loss) on investment securities:				
Unrealized gain (loss) on investment securities, net of tax of \$0, \$113, \$0, and \$144, respectively	—	345	—	521
Less: reclassification adjustment for gain (loss) included in net income	—	—	—	93
Net unrealized gain (loss) on investment securities	—	345	—	428
Foreign currency translation gain (loss)	(208)	422	(618)	1,151
Total other comprehensive income (loss)	(208)	767	(618)	1,579
Comprehensive income	66,509	59,276	205,408	151,476
Comprehensive income attributable to noncontrolling interests - Artisan Partners Holdings	23,961	27,540	73,254	73,046
Comprehensive income attributable to noncontrolling interests - consolidated investment products	178	610	6,848	614
Comprehensive income attributable to Artisan Partners Asset Management Inc.	\$ 42,370	\$ 31,126	\$ 125,306	\$ 77,816

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

ARTISAN PARTNERS ASSET MANAGEMENT INC.
Unaudited Consolidated Statements of Changes in Stockholders' Equity
(U.S. dollars in thousands)

	Class A Common stock	Class B Common stock	Class C Common stock	Additional paid- in capital	Retained earnings	Accumulated other comprehensive income (loss)	Non-controlling interest - Artisan Partners Holdings	Total stockholders' equity	Redeemable non- controlling interest
Balance at January 1, 2018	\$ 505	\$ 119	\$ 132	\$ 147,910	\$ (37,870)	\$ (873)	\$ (1,858)	\$ 108,065	\$ 62,581
Net income	—	—	—	—	125,798	—	73,380	199,178	6,848
Other comprehensive income - foreign currency translation	—	—	—	—	—	(447)	(171)	(618)	—
Other comprehensive income - available for sale investments, net of tax	—	—	—	—	358	(260)	—	98	—
Cumulative impact of changes in ownership of Artisan Partners Holdings LP, net of tax	—	—	—	(3,758)	—	(44)	3,802	—	—
Amortization of equity-based compensation	—	—	—	29,701	—	—	12,625	42,326	—
Deferred tax assets, net of amounts payable under tax receivable agreements	—	—	—	4,199	—	—	—	4,199	—
Issuance of Class A common stock, net of issuance costs	6	—	—	21,284	—	—	—	21,290	—
Forfeitures and employee/partner terminations	5	(20)	15	—	—	—	—	—	—
Issuance of restricted stock awards	15	—	—	(15)	—	—	—	—	—
Employee net share settlement	(2)	—	—	(1,742)	—	—	(820)	(2,564)	—
Exchange of subsidiary equity	11	(6)	(5)	—	—	—	—	—	—
Purchase of equity and subsidiary equity	—	(6)	—	(21,472)	—	—	—	(21,478)	—
Capital contributions, net	—	—	—	—	—	—	—	—	40,883
Impact of deconsolidation of CIPs	—	—	—	—	—	—	—	—	(79,631)
Distributions	—	—	—	—	—	—	(78,418)	(78,418)	—
Dividends	—	—	—	(85,498)	(49,608)	—	(84)	(135,190)	—
Balance at September 30, 2018	\$ 540	\$ 87	\$ 142	\$ 90,609	\$ 38,678	\$ (1,624)	\$ 8,456	\$ 136,888	\$ 30,681

	Class A Common stock	Class B Common stock	Class C Common stock	Additional paid- in capital	Retained earnings	Accumulated other comprehensive income (loss)	Non-controlling interest - Artisan Partners Holdings	Total stockholders' equity	Redeemable non- controlling interest
Balance at January 1, 2017	\$ 421	\$ 151	\$ 171	\$ 119,221	\$ 13,395	\$ (1,648)	\$ (13,997)	\$ 117,714	—
Net income	—	—	—	—	77,092	—	72,191	149,283	614
Other comprehensive income - foreign currency translation	—	—	—	—	—	746	405	1,151	—
Other comprehensive income - available for sale investments, net of tax	—	—	—	—	—	240	192	432	—
Cumulative impact of changes in ownership of Artisan Partners Holdings LP, net of tax	—	—	—	(5,624)	—	(261)	5,881	(4)	—
Amortization of equity-based compensation	—	—	—	31,758	—	—	18,512	50,270	—
Deferred tax assets, net of amounts payable under tax receivable agreements	—	—	—	22,467	—	—	—	22,467	—
Issuance of Class A common stock, net of issuance costs	56	—	—	161,986	—	—	—	162,042	—
Forfeitures and employee/partner terminations	—	—	—	—	—	—	—	—	—
Issuance of restricted stock awards	13	—	—	(13)	—	—	—	—	—
Employee net share settlement	—	—	—	(891)	—	—	(586)	(1,477)	—
Exchange of subsidiary equity	10	(7)	(3)	—	—	—	—	—	—
Purchase of equity and subsidiary equity	—	(21)	(35)	(162,438)	—	—	—	(162,494)	—
Capital Contributions, net	—	—	—	—	—	—	—	—	14,655
Distributions	—	—	—	—	—	—	(81,869)	(81,869)	—
Dividends	—	—	—	(30,053)	(70,587)	—	(83)	(100,723)	—
Balance at September 30, 2017	\$ 500	\$ 123	\$ 133	\$ 136,413	\$ 19,900	\$ (923)	\$ 646	\$ 156,792	\$ 15,269

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

ARTISAN PARTNERS ASSET MANAGEMENT INC.
Unaudited Consolidated Statements of Cash Flows
(U.S. dollars in thousands)

	For the Nine Months Ended September 30,	
	2018	2017
Cash flows from operating activities		
Net income before noncontrolling interests	\$ 206,026	\$ 149,897
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,257	3,859
Deferred income taxes	19,468	29,585
Unrealized net investment income	(1,592)	(93)
Net (gain) loss on the tax receivable agreements	(251)	(501)
Loss on disposal of property and equipment	11	20
Amortization of debt issuance costs	343	336
Share-based compensation	42,326	50,270
Net investment (gain) loss of consolidated investment products	(9,464)	(1,567)
Purchase of investments by consolidated investment products	(602,736)	(51,546)
Proceeds from sale of investments by consolidated investment products	579,599	28,596
Change in assets and liabilities resulting in an increase (decrease) in cash:		
Accounts receivable	(126)	(13,934)
Prepaid expenses and other assets	(883)	1,127
Accounts payable and accrued expenses	78,506	63,959
Class B liability awards	—	(506)
Deferred lease obligations	1,522	1,731
Net change in operating assets and liabilities of consolidated investment products	11,241	7,509
Net cash provided by operating activities	328,247	268,742
Cash flows from investing activities		
Acquisition of property and equipment	(1,598)	(1,312)
Leasehold improvements	(7,267)	(3,037)
Proceeds from sale of investment securities	—	6,382
Purchase of investment securities	(250)	(5,250)
Net cash used in investing activities	(9,115)	(3,217)

ARTISAN PARTNERS ASSET MANAGEMENT INC.
Unaudited Consolidated Statements of Cash Flows, continued
(U.S. dollars in thousands)

	For the Nine Months Ended September 30,	
	2018	2017
Cash flows from financing activities		
Partnership distributions	(78,418)	(81,869)
Dividends paid	(135,190)	(100,723)
Payment of debt issuance costs	—	(611)
Proceeds from issuance of notes payable	—	60,000
Principal payments on notes payable	—	(60,000)
Payment under the tax receivable agreements	(36,111)	(30,234)
Net proceeds from issuance of common stock	21,478	162,494
Payment of costs directly associated with the issuance of Class A common stock	(166)	(294)
Purchase of equity and subsidiary equity	(21,478)	(162,494)
Taxes paid related to employee net share settlement	(2,564)	(1,477)
Capital contributions to consolidated investment products, net	40,883	14,655
Net cash used in financing activities	(211,566)	(200,553)
Net increase (decrease) in cash and cash equivalents	107,566	64,972
Net cash impact of deconsolidation of CIPs	(39,759)	—
Cash, cash equivalents and restricted cash		
Beginning of period	159,796	157,406
End of period	\$ 227,603	\$ 222,378
Cash, cash equivalents and restricted cash as of the end of the period		
Cash and cash equivalents	\$ 211,431	\$ 202,636
Restricted cash	629	629
Cash and cash equivalents of consolidated investment products	15,543	19,113
Cash, cash equivalents and restricted cash	\$ 227,603	\$ 222,378
Supplementary information		
Noncash activity:		
Establishment of deferred tax assets	\$ 24,123	\$ 133,544
Establishment of amounts payable under tax receivable agreements	19,683	111,077

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

ARTISAN PARTNERS ASSET MANAGEMENT INC.
Notes to Unaudited Consolidated Financial Statements
(U.S. currencies in thousands, except per share or per unit amounts and as otherwise indicated)

Note 1. Nature of Business and Organization

Nature of Business

Artisan Partners Asset Management Inc. (“APAM”), through its subsidiaries, is an investment management firm focused on providing high-value added, active investment strategies to sophisticated clients globally. APAM and its subsidiaries are hereafter referred to collectively as “Artisan” or the “Company”.

Artisan’s autonomous investment teams manage a broad range of U.S., non-U.S. and global investment strategies that are diversified by asset class, market cap and investment style. Strategies are offered through multiple investment vehicles to accommodate a broad range of client mandates. Artisan offers its investment management services primarily to institutions and through intermediaries that operate with institutional-like decision-making processes and have long-term investment horizons.

Organization

On March 12, 2013, APAM completed its initial public offering (the “IPO”). APAM was formed for the purpose of becoming the general partner of Artisan Partners Holdings LP (“Artisan Partners Holdings” or “Holdings”) in connection with the IPO. Holdings is a holding company for the investment management business conducted under the name “Artisan Partners”. The reorganization (“IPO Reorganization”) established the necessary corporate structure to complete the IPO while at the same time preserving the ability of the firm to conduct operations through Holdings and its subsidiaries.

As the sole general partner, APAM controls the business and affairs of Holdings. As a result, APAM consolidates Holdings’ financial statements and records a noncontrolling interest for the equity interests in Holdings held by the limited partners of Holdings. At September 30, 2018, APAM held approximately 70% of the equity ownership interest in Holdings.

Holdings, together with its wholly owned subsidiary, Artisan Investments GP LLC (“AIGP”), controls a 100% interest in Artisan Partners Limited Partnership (“APLP”), a multi-product investment management firm that is the principal operating subsidiary of Artisan Partners Holdings. APLP is registered as an investment adviser with the U.S. Securities and Exchange Commission under the Investment Advisers Act of 1940. APLP provides investment advisory services to separate accounts, including privately offered funds, and pooled investment vehicles, including Artisan Partners Funds, Inc. (“Artisan Funds”) and Artisan Partners Global Funds plc (“Artisan Global Funds”). Artisan Funds are a series of open-end, diversified mutual funds registered under the Investment Company Act of 1940, as amended. Artisan Global Funds is a family of Ireland-domiciled UCITS.

2018 Follow-On Offering

On February 27, 2018, APAM completed a registered offering of 644,424 shares of Class A common stock (the “2018 Follow-On Offering”) and utilized all of the proceeds to purchase an aggregate of 644,424 common units of Artisan Partners Holdings at a price per unit of \$33.33. The offering and subsequent purchase of units had the following impact on the consolidated financial statements:

- APAM received 644,424 GP units of Holdings, which increased APAM’s ownership interest in Holdings. See Note 7, “Noncontrolling interest - Holdings” for the financial statement impact of changes in ownership.
- APAM’s purchase of common units of Holdings with the proceeds resulted in an increase to deferred tax assets and amounts payable under the tax receivable agreements. See Note 11, “Income Taxes and Related Payments”.

Holdings Unit Exchanges

Limited partners of Artisan Partners Holdings are entitled to exchange partnership units (along with a corresponding number of shares of Class B or C common stock of APAM) for shares of Class A common stock from time to time (the “Holdings Common Unit Exchanges”). The following partnership units were exchanged for APAM Class A common stock during the nine months ended September 30, 2018:

	Total Common Units Exchanged	Class A Common Units	Class B Common Units	Class E Common Units
Common units exchanged on March 1, 2018	958,288	499,222	449,066	10,000
Common units exchanged on April 2, 2018	452,628	—	—	452,628
Common units exchanged on May 9, 2018	62,000	—	57,000	5,000
Common units exchanged on August 8, 2018	66,000	—	50,000	16,000
Total Units Exchanged	1,538,916	499,222	556,066	483,628

The corresponding shares of APAM Class B and Class C common stock were immediately canceled upon exchange. The Holdings Common Unit Exchanges increased APAM's equity ownership interest in Holdings and resulted in an increase to deferred tax assets and amounts payable under the tax receivable agreements. See Note 11, "Income Taxes and Related Payments".

Note 2. Summary of Significant Accounting Policies

Basis of presentation

The accompanying financial statements are unaudited. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of such consolidated financial statements have been included. Such interim results are not necessarily indicative of full year results.

The consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") for interim financial reporting and accordingly they do not include all of the information and footnotes required in the annual consolidated financial statements and accompanying footnotes.

The year-end condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by U.S. GAAP. As a result, the interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in APAM's latest annual report on Form 10-K.

The accompanying financial statements were prepared in accordance with U.S. GAAP and related rules and regulations of the SEC. The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates or assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from these estimates or assumptions.

Principles of consolidation

Artisan's policy is to consolidate all subsidiaries or other entities in which it has a controlling financial interest. The consolidation guidance requires an analysis to determine if an entity should be evaluated for consolidation using the voting interest entity ("VOE") model or the variable interest entity ("VIE") model. Under the VOE model, controlling financial interest is generally defined as a majority ownership of voting interests. Under the VIE model, controlling financial interest is defined as (i) the power to direct activities that most significantly impact the economic performance of the entity and (ii) the right to receive potentially significant benefits or the obligation to absorb potentially significant losses. Artisan generally consolidates VIEs in which it meets the power criteria and holds an equity ownership interest of greater than 10%. The consolidated financial statements include the accounts of APAM and all subsidiaries or other entities in which APAM has a direct or indirect controlling financial interest. All material intercompany balances have been eliminated in consolidation.

Artisan serves as the investment adviser to Artisan Funds, Artisan Global Funds and other investment products, including Artisan sponsored private funds. Artisan Funds and Artisan Global Funds are corporate entities the business and affairs of which are managed by their respective boards of directors. The shareholders of the funds retain voting rights, including rights to elect and reelect members of their respective boards of directors. Each series of Artisan Funds is a VOE and is separately evaluated for consolidation under the VOE model. The shareholders of Artisan Global Funds lack simple majority liquidation rights, and as a result, each sub-fund of Artisan Global Funds is evaluated for consolidation under the VIE model. Artisan sponsored privately offered funds are also evaluated for consolidation under the VIE model because third-party equity holders of the funds generally lack the ability to divest Artisan of its control of the funds.

From time to time, the Company makes investments in Artisan Funds, Artisan Global Funds, and Artisan sponsored private funds. If the investment results in a controlling financial interest, APAM consolidates the fund, and the underlying activity of the entire fund is included in Artisan's Consolidated Financial Statements. As of September 30, 2018, Artisan has a controlling financial interest in three sub-funds of Artisan Global Funds and certain privately offered funds and, as a result, these funds are included in Artisan's Consolidated Financial Statements. Because these consolidated investment products meet the definition of investment companies under U.S. GAAP, Artisan has retained the specialized industry accounting principles for investment companies in its Consolidated Financial Statements. See Note 6, "Variable Interest Entities and Consolidated Investment Products" for additional details.

Recent accounting pronouncements

Accounting standards adopted as of January 1, 2018

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, which supersedes existing accounting standards for revenue recognition and creates a single framework. The guidance also changes the accounting for certain costs to obtain or fulfill a contract. The Company adopted ASU 2014-09 as of January 1, 2018, utilizing the modified retrospective method. There was no cumulative effect adjustment of applying the new revenue standard and the comparative information has not been restated. There are no significant differences between the reported results under the revenue standard and what would have been reported under the previous revenue guidance, other than the disclosures included in Note 9, "Revenue From Contracts with Customers".

The application of ASU 2014-09 had no impact on the Consolidated Statement of Financial Condition as of September 30, 2018, as compared to the previous revenue recognition standard. The application of the new principal versus agent guidance resulted in presentation changes whereby certain costs are now reported on a gross basis, when the Company is acting as principal, and reported on a net basis, when the Company is acting as an agent. The new standard requires the entire amount of fee waivers and expense reimbursements to be presented net against revenue, which resulted in a \$16 thousand decrease in management fee revenue and a corresponding \$16 thousand decrease in general and administrative expenses within the Consolidated Statements of Operations for the nine months ended September 30, 2018. Applying ASU 2014-09 had no impact on operating income or net income, as compared to applying the previous revenue recognition standard. Artisan did not apply any of the practical expedients in ASU 2014-09.

In January 2016, the FASB issued ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*, which requires all equity investments to be measured at fair value with changes in the fair value recognized through net income. The Company adopted ASU 2016-01 as of January 1, 2018, utilizing the modified retrospective method. Upon adoption, the Company made a cumulative-effect adjustment to the Company's Consolidated Statements of Financial Condition, which resulted in a \$0.4 million decrease to accumulated other comprehensive income (loss) and a corresponding \$0.4 million increase to retained earnings (deficit). The application of ASU 2016-01 results in the recognition of the Company's unrealized gains (losses) on investment securities through net income. The Company recognized \$1.6 million of unrealized gains in net income for the nine months ended September 30, 2018.

In November 2016, the FASB issued ASU 2016-18, *Restricted Cash*, to clarify guidance on the classification and presentation of restricted cash in the statement of cash flows. Restricted cash and restricted cash equivalents, including cash of consolidated investment products, is required to be included in cash and cash-equivalent balances in the statement of cash flows. The guidance is effective as of January 1, 2018, and requires retrospective application to all periods presented. The Consolidated Statements of Cash Flows includes a reconciliation to the line items on the Consolidated Statements of Financial Condition.

Accounting standards not yet adopted

In February 2016, the FASB issued ASU 2016-02, *Leases*, which introduces a lessee model that brings most leases on the balance sheet. In July 2018, the FASB issued ASU 2018-11, *Leases - Targeted Improvements*, which provides an optional transition method related to implementing the new lease standard. Under this new transition method, an entity initially applies the new leases standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The Company plans to adopt the new standard on January 1, 2019, using the optional transition method. The Company is currently evaluating the impact of adoption on its Consolidated Financial Statements. The standard is expected to result in a significant increase in total assets and total liabilities, but will not have a significant impact on the Consolidated Statements of Operations.

In August 2018, the FASB issued ASU 2018-15, *Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*, which aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The capitalized implementation costs will be expensed over the term of the hosting arrangement. The Company currently expenses implementation costs in hosting arrangement as the costs are incurred. The new guidance will be effective on January 1, 2020. The Company is currently evaluating the impact of adoption on its consolidated financial statements.

Note 3. Investment Securities

The disclosures below include details of Artisan’s investments, excluding money market funds and consolidated investment products. Investments held by consolidated investment products are described in Note 6, “Variable Interest Entities and Consolidated Investment Products”. The table below includes details of the Company’s investment securities:

	September 30, 2018	December 31, 2017
Investments in equity securities	\$ 6,263	\$ 4,978
Investments in equity securities accounted for under the equity method	11,941	—
Total investment securities	\$ 18,204	\$ 4,978

Artisan’s investments in equity securities consist of investments in shares of Artisan Funds, Artisan Global Funds and Artisan sponsored private funds. As of January 1, 2018, the Company adopted ASU 2016-01, which requires all equity investments to be measured at fair value with changes in the fair value recognized through net income.

The table below presents the Company’s gains and losses that relate to seed investments for the specified periods:

	For the Three Months Ended September 30, 2018	For the Nine Months Ended September 30, 2018
Net gains (losses) recognized on investment securities	\$ 967	\$ 1,592
Less: Net realized gains (losses) recognized on investment securities sold during the period	\$ —	\$ —
Unrealized gains (losses) recognized on investment securities held as of the end of the period	\$ 967	\$ 1,592

Note 4. Fair Value Measurements

The table below presents information about Artisan’s assets and liabilities that are measured at fair value and the valuation techniques Artisan utilized to determine such fair value. The financial instruments held by consolidated investment products are excluded from the table below and are presented in Note 6, “Variable Interest Entities and Consolidated Investment Products”.

In accordance with ASC 820, fair value is defined as the price that Artisan would receive upon selling an investment in an orderly transaction to an independent buyer in the principal or most advantageous market for the investment. The following three-tier fair value hierarchy prioritizes the inputs used in measuring fair value:

- Level 1 – Observable inputs such as quoted (unadjusted) market prices in active markets for identical securities.
- Level 2 – Other significant observable inputs (including but not limited to quoted prices for similar instruments, interest rates, prepayment speeds, credit risk, etc.).
- Level 3—Significant unobservable inputs (including Artisan’s own assumptions in determining fair value).

The following provides the hierarchy of inputs used to derive fair value of Artisan’s assets and liabilities that are financial instruments as of September 30, 2018 and December 31, 2017:

Assets and Liabilities at Fair Value					
	Total	NAV Practical Expedient (No Fair Value Level)	Level 1	Level 2	Level 3
September 30, 2018					
Assets					
Money market funds	\$ 87,364	\$ —	\$ 87,364	\$ —	\$ —
Equity securities	18,204	11,941	6,263	—	—
December 31, 2017					
Assets					
Money market funds	\$ 26,727	\$ —	\$ 26,727	\$ —	\$ —
Equity securities	4,978	—	4,978	—	—

Fair values determined based on Level 1 inputs utilize quoted market prices for identical assets. Level 1 assets generally consist of money market funds, open-end mutual funds and UCITS funds. Equity securities without a fair value level consist of investments in sponsored private funds, which are measured at the underlying funds’ net asset value (“NAV”), using the ASC 820 practical expedient. The NAV is provided by the fund and is derived from the fair values of the underlying investments as of the reporting date. Cash maintained in demand deposit accounts is excluded from the table above.

Note 5. Borrowings

Artisan’s borrowings consist of the following as of September 30, 2018 and December 31, 2017:

	Maturity	Outstanding Balance	Interest Rate Per Annum
Revolving credit agreement	August 2022	\$ —	NA
Senior notes			
Series B	August 2019	50,000	5.32%
Series C	August 2022	90,000	5.82%
Series D	August 2025	60,000	4.29%
Total borrowings		\$ 200,000	

The fair value of borrowings was approximately \$201.8 million as of September 30, 2018. Fair value was determined based on future cash flows, discounted to present value using current market interest rates. The inputs are categorized as Level 2 in the fair value hierarchy, as defined in Note 4, “Fair Value Measurements”.

Interest expense incurred on the unsecured notes and revolving credit agreement was \$2.7 million for the three months ended September 30, 2018 and 2017, and \$8.0 million and \$8.2 million for the nine months ended September 30, 2018 and 2017, respectively.

As of September 30, 2018, the aggregate maturities of debt obligations, based on their contractual terms, are as follows:

2018	\$ —
2019	50,000
2020	—
2021	—
2022	90,000
Thereafter	60,000
Total	\$ 200,000

Note 6. Variable Interest Entities and Consolidated Investment Products

Artisan serves as the investment adviser for various types of investment products, consisting of both VIEs and VOEs. Artisan consolidates an investment product if it has a controlling financial interest in the entity. Any such entities are collectively referred to herein as consolidated investment products or CIPs.

As of September 30, 2018, Artisan is considered to have a controlling financial interest in three sub-funds of Artisan Global Funds and certain Artisan sponsored private funds related to one investment strategy for which it serves as investment manager. As of September 30, 2018, Artisan's direct equity investment in the consolidated investment products was \$31.0 million.

Artisan's maximum exposure to loss in connection with the assets and liabilities of CIPs is limited to its direct equity investment, while the potential benefit is limited to the management fee and incentive allocation received and the return on its equity investment. With the exception of Artisan's direct equity investment, the assets of CIPs are not available to Artisan's creditors, nor are they available to Artisan for general corporate purposes. In addition, third-party investors in the CIPs have no recourse to the general credit of the Company.

Management fees and incentive allocations earned from CIPs are eliminated from revenue upon consolidation. See Note 15, "Related Party Transactions" for additional information on management fees and incentive allocations earned from CIPs.

Third-party investors' ownership interest in CIPs is presented as redeemable noncontrolling interest in the Unaudited Consolidated Statements of Financial Condition as third-party investors have the right to withdraw their capital, subject to certain conditions. Net income attributable to third-party investors is reported as net income attributable to noncontrolling interests - consolidated investment products in the Unaudited Consolidated Statement of Operations.

During the three months ended September 30, 2018, the Company determined that it no longer has a controlling financial interest in one private fund as a result of third party capital contributions to the fund. As a result, the VIE was deconsolidated and the following assets, liabilities and noncontrolling interest balances were removed from the Company's Consolidated Statements of Financial Condition:

	As of July 1, 2018
<i>Assets of consolidated investment products</i>	
Cash and cash equivalents	\$ 39,759
Accounts receivable and other	1,340
Investment assets, at fair value	85,626
Less: Amounts reclassified to investment securities	(11,381)
Total assets	\$ 115,344
<i>Liabilities of consolidated investment products</i>	
Accounts payable, accrued expenses, and other	\$ 6,385
Investment liabilities, at fair value	29,328
Total liabilities	\$ 35,713
Redeemable noncontrolling interests	\$ 79,631
Total liabilities and equity	\$ 115,344

There was no net impact to the Condensed Consolidated Statements of Operations for the nine months ended September 30, 2018 from the deconsolidation of the private fund. Artisan generally does not recognize a gain or loss upon deconsolidation of investment products as the assets and liabilities of CIPs are carried at fair value. Artisan's direct equity investment was reclassified from investment assets of consolidated investment products to investment securities. The direct equity investment in the private fund was \$11.9 million as of September 30, 2018, which is accounted for under the equity method of accounting since Artisan retains significant influence over the fund.

Fair Value Measurements - Consolidated Investment Products

The carrying value of CIPs' investments is also their fair value. Short and long positions on equity securities are valued based upon closing prices of the security on the exchange or market designated by the accounting agent or pricing vendor as the principal exchange. The closing price may represent last sale price, official closing price, a closing auction or other information depending on market convention. Short and long positions on fixed income instruments are valued at market value. Market values are generally evaluations based on the judgment of pricing vendors, which may consider, among other factors, the prices at which securities actually trade, broker-dealer quotations, pricing formulas, estimates of market values obtained from yield data relating to investments or securities with similar characteristics and/or discounted cash flow models that might be applicable.

The following tables present the fair value hierarchy levels of assets and liabilities held by CIPs measured at fair value as of September 30, 2018 and December 31, 2017:

	Assets and Liabilities at Fair Value			
	Total	Level 1	Level 2	Level 3
September 30, 2018				
Assets				
Money market funds	\$ 9,693	\$ 9,693	\$ —	\$ —
Equity securities - long position	7,435	7,435	—	—
Fixed income instruments - long position	57,137	—	56,312	825
Derivative assets	476	—	476	—
Liabilities				
Equity securities - short position	\$ 232	\$ 232	\$ —	\$ —
Fixed income instruments - short position	21,236	—	21,236	—
Derivative liabilities	217	—	217	—

	Assets and Liabilities at Fair Value			
	Total	Level 1	Level 2	Level 3
December 31, 2017				
Assets				
Money market funds	\$ 21,881	\$ 21,881	\$ —	\$ —
Equity securities - long position	69,044	69,044	—	—
Fixed income instruments - long position	45,758	—	45,758	—
Derivative assets	343	303	40	—
Liabilities				
Equity securities - short position	\$ 29,199	\$ 29,199	\$ —	\$ —
Fixed income instruments - short position	18,513	—	18,513	—
Derivative liabilities	145	45	100	—

CIP balances included in the Company's Consolidated Statements of Financial Condition were as follows:

	September 30, 2018	December 31, 2017
Net CIP assets included in the table above	\$ 53,056	\$ 89,169
Net CIP assets not included in the table above	8,640	8,762
Net CIP assets	61,696	97,931
Less: redeemable noncontrolling interest	30,681	62,581
Artisan's direct equity investment in CIPs	\$ 31,015	\$ 35,350

Note 7. Noncontrolling interest - Holdings

Net income attributable to noncontrolling interests - Artisan Partners Holdings in the Unaudited Consolidated Statements of Operations represents the portion of earnings or loss attributable to the equity ownership interests in Holdings held by the limited partners of Holdings. As of September 30, 2018, APAM held approximately 70% of the equity ownership interests in Holdings.

In order to maintain the one-to-one correspondence of the number of Holdings partnership units and APAM common shares, Holdings will issue one general partner (“GP”) unit to APAM for each share of Class A common stock issued by APAM. For the nine months ended September 30, 2018, APAM’s equity ownership interest in Holdings has increased as a result of the following transactions:

	Holdings GP Units	Limited Partnership Units	Total	APAM Ownership %
Balance at December 31, 2017	50,463,126	25,106,719	75,569,845	67%
2018 Follow-On Offering	644,424	(644,424)	—	1%
Holdings Common Unit Exchanges	1,538,916	(1,538,916)	—	2%
Issuance of APAM Restricted Shares ⁽¹⁾	1,517,724	—	1,517,724	—%
Restricted Share Award Net Share Settlement ⁽¹⁾	(77,442)	—	(77,442)	—%
Forfeitures of Holdings GP Units from Employee Terminations ⁽¹⁾	(67,255)	—	(67,255)	—%
Balance at September 30, 2018	54,019,493	22,923,379	76,942,872	70%

⁽¹⁾ The impact of the transaction on APAM’s ownership percentage was less than 1%.

Since APAM continues to have a controlling interest in Holdings, changes in ownership of Holdings are accounted for as equity transactions. Additional paid-in capital and noncontrolling interest - Artisan Partners Holdings in the Unaudited Condensed Consolidated Statements of Financial Condition are adjusted to reallocate Holdings’ historical equity to reflect the change in APAM’s ownership of Holdings.

The reallocation of equity had the following impact on the Unaudited Condensed Consolidated Statements of Financial Condition:

Statement of Financial Condition	For the Nine Months Ended September 30,	
	2018	2017
Additional paid-in capital	\$ (3,758)	\$ (5,624)
Noncontrolling interest - Artisan Partners Holdings	3,802	5,881
Accumulated other comprehensive income (loss)	(44)	(257)
Net impact to financial condition	—	—

In addition to the reallocation of historical equity, the change in ownership resulted in an increase to deferred tax assets and additional paid-in capital of \$0.7 million for the nine months ended September 30, 2018 and \$2.9 million for the nine months ended September 30, 2017.

Note 8. Stockholders' Equity

APAM - Stockholders' Equity

As of September 30, 2018 and December 31, 2017, APAM had the following authorized and outstanding equity:

		Outstanding			
	Authorized	September 30, 2018	December 31, 2017	Voting Rights ⁽¹⁾	Economic Rights
Common shares					
Class A, par value \$0.01 per share	500,000,000	54,019,493	50,463,126	1 vote per share	Proportionate
Class B, par value \$0.01 per share	200,000,000	8,695,249	11,922,192	1 vote per share ⁽²⁾	None
Class C, par value \$0.01 per share	400,000,000	14,228,130	13,184,527	1 vote per share	None

⁽¹⁾ The Company's employees to whom Artisan has granted equity have entered into a stockholders agreement with respect to all shares of APAM common stock they have acquired from the Company and any shares they may acquire from the Company in the future, pursuant to which they granted an irrevocable voting proxy to a Stockholders Committee. As of September 30, 2018, Artisan's employees held 4,575,332 restricted shares of Class A common stock subject to the agreement and all 8,695,249 outstanding shares of Class B common stock.

⁽²⁾ On February 9, 2018, the Class B common shares changed from five votes per share to one vote per share.

APAM is dependent on cash generated by Holdings to fund any dividends. Generally, Holdings will make distributions to all of its partners, including APAM, based on the proportionate ownership each holds in Holdings. APAM will fund dividends to its stockholders from its proportionate share of those distributions after provision for its taxes and other obligations. APAM declared and paid the following dividends per share during the three and nine months ended September 30, 2018 and 2017:

Type of Dividend	Class of Stock	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
		2018	2017	2018	2017
Quarterly	Class A Common	\$ 0.60	\$ 0.60	\$ 1.80	\$ 1.80
Special Annual	Class A Common	\$ —	\$ —	\$ 0.79	\$ 0.36

The following table summarizes APAM's stock transactions for the nine months ended September 30, 2018:

	Total Stock Outstanding	Class A Common Stock ⁽¹⁾	Class B Common Stock	Class C Common Stock
Balance at December 31, 2017	75,569,845	50,463,126	11,922,192	13,184,527
2018 Follow-On Offering	—	644,424	(644,424)	—
Holdings Common Unit Exchanges	—	1,538,916	(556,066)	(982,850)
Restricted Share Award Grants	1,517,724	1,517,724	—	—
Restricted Share Award Net Share Settlement	(77,442)	(77,442)	—	—
Employee/Partner Terminations	(67,255)	(67,255)	(2,026,453)	2,026,453
Balance at September 30, 2018	76,942,872	54,019,493	8,695,249	14,228,130

⁽¹⁾ There were 246,581 and 218,089 restricted stock units outstanding at September 30, 2018 and December 31, 2017, respectively. Restricted stock units are not reflected in the table because they are not considered outstanding or issued stock.

Each Class A, Class B, Class D and Class E common unit of Holdings (together with the corresponding share of Class B or Class C common stock) is exchangeable for one share of Class A common stock. The corresponding shares of Class B and Class C common stock are immediately canceled upon any such exchange.

Upon termination of employment with Artisan, an employee-partner's Class B common units are exchanged for Class E common units and the corresponding shares of Class B common stock are canceled. APAM issues the former employee-partner a number of shares of Class C common stock equal to the former employee-partner's number of Class E common units. Class E common units are exchangeable for Class A common stock subject to the same restrictions and limitations on exchange applicable to the other common units of Holdings.

Artisan Partners Holdings - Partners' Equity

Holdings makes distributions of its net income to the holders of its partnership units for income taxes as required under the terms of the partnership agreement and also makes additional distributions under the terms of the partnership agreement. The distributions are recorded in the financial statements on the declaration date, or on the payment date in lieu of a declaration date. Holdings' partnership distributions for the three and nine months ended September 30, 2018 and 2017, were as follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
Holdings Partnership Distributions to Limited Partners	\$ 22,674	\$ 27,101	\$ 78,418	\$ 81,869
Holdings Partnership Distributions to APAM	49,839	50,065	162,748	133,609
Total Holdings Partnership Distributions	\$ 72,513	\$ 77,166	\$ 241,166	\$ 215,478

The distributions are recorded as a reduction to consolidated stockholders' equity, with the exception of distributions made to APAM, which are eliminated upon consolidation.

Note 9. Revenue From Contracts with Customers

Artisan's revenue is derived from contracts with customers in the form of investment management fees, performance-based fees and incentive allocations.

Investment Management Fees

Investment management fees are generally computed as a percentage of assets under management and are recognized as revenue at the end of each distinct service period. Fees for providing investment advisory services are computed and billed in accordance with the underlying investment management agreements, which is generally on a monthly or quarterly basis. Investment management fees are presented net of cash rebates and fees waived pursuant to contractual expense limitations of certain funds or voluntary waivers.

Performance Fees

A number of investment management agreements provide for performance-based fees or incentive allocations, collectively "performance fees". Performance fees, if earned, are recognized upon completion of the contractually determined measurement period, which is generally quarterly or annually. Performance fees are not subject to claw back as a result of performance declines subsequent to the most recent measurement date.

Revenue Recognition

Artisan accounts for asset management services as a single performance obligation that is satisfied over time, using a time-based measure of progress to recognize revenue. Customer consideration is variable due to the uncertainty of the value of assets under management during each distinct service period. At the end of each quarter, Artisan records revenue for the actual amount of investment management fees earned for that quarter because the uncertainty has been resolved.

Performance fees are subject to the uncertainty of market volatility, and as a result, the entire amount of the variable consideration related to performance fees is constrained until the end of each measurement period. At the end of the quarterly or annual measurement period, revenue is recorded for the actual amount of performance fees earned during that period because the uncertainty has been resolved. For performance fees with annual measurement periods, revenue recognized in the current quarter relates to performance obligations that were partially satisfied in prior periods.

Customer Rebates, Waivers and Expense Reimbursements

Artisan has contractually agreed to waive its investment management fees or reimburse for expenses incurred to the extent necessary to limit annualized ordinary operating expenses incurred by certain funds to not more than a fixed percentage of the funds' average daily net assets. Artisan may also contractually agree to pay fee rebates to certain clients. Artisan accounts for all waivers, reimbursements, and rebates as a reduction of the transaction price (and, hence, of revenue) because the billing adjustments and payments represent consideration payable to customers, and Artisan does not receive any distinct goods or services from the customers in exchange.

Disaggregated Revenue

The following table presents a disaggregation of revenue by type and vehicle for the three and nine months ended September 30, 2018 and 2017:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
Management fees				
Artisan Funds	\$ 125,392	\$ 121,004	\$ 375,730	\$ 347,778
Artisan Global Funds	9,090	7,672	26,554	22,187
Separate accounts ⁽¹⁾	78,256	75,864	232,449	214,600
Performance fees				
Separate accounts ⁽¹⁾	50	16	2,359	338
Total revenues	\$ 212,788	\$ 204,556	\$ 637,092	\$ 584,903

⁽¹⁾ Separate account revenue consists of management fees and performance fees from vehicles other than Artisan Funds or Artisan Global Funds. Separate account revenue includes fees earned from traditional separate accounts and privately offered funds, as well as fees earned from Artisan-branded collective investment trusts and funds (both public and private) that Artisan sub-advises. All management fees and performance fees from consolidated investment products were eliminated upon consolidation and therefore are omitted from this table.

The following table presents the balances of receivables related to contracts with customers:

Customer	As of September 30, 2018	As of December 31, 2017
Artisan Funds	\$ —	\$ 4
Artisan Global Funds	2,484	5,105
Separate accounts	68,538	68,019
Total receivables from contracts with customers	\$ 71,022	\$ 73,128
Non-customer receivables	5,798	3,565
Accounts receivable	\$ 76,820	\$ 76,693

Artisan Funds and Artisan Global Funds are billed on the last day of each month. Artisan Funds makes payments on the same day the invoice is received and Artisan Global Funds generally makes payments in the month following receipt of the invoice. Separate account clients are generally billed on a monthly or quarterly basis, with payments due within 30 days of billing.

Artisan had no other contract assets or liabilities from contracts with customers as of September 30, 2018 or December 31, 2017.

Note 10. Compensation and Benefits

Total compensation and benefits consists of the following:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
Salaries, incentive compensation and benefits ⁽¹⁾	\$ 90,097	\$ 86,019	\$ 273,057	\$ 251,563
Restricted share-based award compensation expense	12,644	12,506	41,652	36,637
Total salaries, incentive compensation and benefits	102,741	98,525	314,709	288,200
Pre-offering related compensation - share-based awards	—	—	—	12,678
Total compensation and benefits	\$ 102,741	\$ 98,525	\$ 314,709	\$ 300,878

⁽¹⁾ Excluding restricted share-based award compensation expense

Incentive compensation

Cash incentive compensation paid to members of Artisan’s investment teams and members of its distribution teams is generally based on formulas that are tied directly to revenues. These payments are made in the quarter following the quarter in which the incentive was earned with the exception of fourth quarter payments which are paid in the fourth quarter of the year. Cash incentive compensation paid to most other employees is discretionary and subjectively determined based on individual performance and Artisan’s overall results during the applicable year and is generally paid on an annual basis.

Restricted share-based awards

Artisan has registered 14,000,000 shares of Class A common stock for issuance under the 2013 Omnibus Incentive Compensation Plan (the “Plan”). Pursuant to the Plan, APAM has granted a combination of restricted stock awards and restricted stock units (collectively referred to as “restricted share-based awards”) of Class A common stock to employees. The restricted share-based awards generally vest on a pro rata basis over five years. Certain share-based awards will vest upon a combination of both (1) pro-rata annual time vesting and (2) qualifying retirement (as defined in the award agreements).

Unvested awards are subject to forfeiture upon termination of employment. Grantees receiving the awards are entitled to dividends on unvested and vested shares and units. 6,546,999 shares of Class A common stock were reserved and available for issuance under the Plan as of September 30, 2018.

During the nine months ended September 30, 2018, Artisan granted 1,517,724 restricted stock awards and 1,250 restricted stock units of Class A common stock to employees of the Company. Total compensation expense associated with the 2018 grants is expected to be approximately \$59.4 million. Compensation expense related to the restricted share-based awards is recognized based on the estimated grant date fair value on a straight-line basis over the requisite service period of the award. The initial requisite service period is generally five years for restricted share-based awards.

The Company’s accounting policy is to record the impact of forfeitures when they occur. The following table summarizes the restricted share-based award activity for the nine months ended September 30, 2018:

	Weighted-Average Grant Date Fair Value	Number of Awards
Unvested at January 1, 2018	\$ 38.79	4,013,986
Granted	39.32	1,518,974
Forfeited	36.09	(67,255)
Vested	44.50	(787,248)
Unvested at September 30, 2018	\$ 38.04	4,678,457

The unrecognized compensation expense for the unvested awards as of September 30, 2018 was \$113.8 million with a weighted average recognition period of 3.5 years remaining.

During the nine months ended September 30, 2018, the Company withheld a total of 77,442 restricted shares as a result of net share settlements to satisfy employee tax withholding obligations. The Company paid \$2.6 million in employee tax withholding obligations related to these settlements during the nine months ended September 30, 2018. These net share settlements had the effect of shares repurchased and retired by the Company, as they reduced the number of shares outstanding.

Pre-offering related compensation - share-based awards

Prior to the IPO, Holdings granted Class B share-based awards to certain employees. These awards vested over a period of five years and became fully vested on July 1, 2017.

Note 11. Income Taxes and Related Payments

APAM is subject to U.S. federal, state and local income taxation on APAM’s allocable portion of Holdings’ income. APAM’s effective income tax rate was lower than the U.S. federal statutory rate of 21% primarily due to a rate benefit attributable to the fact that, for the nine months ended September 30, 2018, approximately 33% of Artisan Partners Holdings’ full year projected taxable earnings were attributable to other partners and not subject to corporate-level taxes. The effective tax rate was also lower than the statutory rate due to dividends paid on unvested share-based awards, net of higher tax expense related to the vesting of restricted share-based awards.

The Tax Cuts and Jobs Act (“Tax Reform”) was enacted in December 2017. As a result of Tax Reform, the U.S. federal corporate tax rate decreased from 35% to 21%, which was the largest driver of lowering APAM’s effective tax rate from 24.7% for nine months ended September 30, 2017 to 15.7% for the nine months ended September 30, 2018.

Components of the provision for income taxes consist of the following:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
Current:				
Federal	\$ 6,823	\$ 9,365	\$ 15,561	\$ 17,223
State and local	1,453	1,023	3,048	2,024
Foreign	135	110	367	337
Total	8,411	10,498	18,976	19,584
Deferred:				
Federal	5,148	10,388	17,397	27,986
State and local	613	593	2,071	1,599
Total	5,761	10,981	19,468	29,585
Income tax expense	\$ 14,172	\$ 21,479	\$ 38,444	\$ 49,169

In connection with the IPO, APAM entered into two tax receivable agreements (“TRAs”). The first TRA generally provides for the payment by APAM to a private equity fund (the “Pre-H&F Corp Merger Shareholder”) of 85% of the applicable cash savings, if any, of U.S. federal, state and local income taxes that APAM actually realizes (or is deemed to realize in certain circumstances) as a result of (i) the tax attributes of the preferred units APAM acquired in the merger of a wholly-owned subsidiary of the Pre-H&F Corp Merger Shareholder into APAM in March 2013, (ii) net operating losses available as a result of the merger and (iii) tax benefits related to imputed interest.

The second TRA generally provides for the payment by APAM to current or former limited partners of Holdings of 85% of the applicable cash savings, if any, of U.S. federal, state and local income taxes that APAM actually realizes (or is deemed to realize in certain circumstances) as a result of (i) certain tax attributes of their partnership units sold to APAM or exchanged (for shares of Class A common stock, convertible preferred stock or other consideration) and that are created as a result of such sales or exchanges and payments under the TRAs and (ii) tax benefits related to imputed interest. Under both agreements, APAM generally will retain the benefit of the remaining 15% of the applicable tax savings.

For purposes of the TRAs, cash savings of income taxes are calculated by comparing APAM’s actual income tax liability to the amount it would have been required to pay had it not been able to utilize any of the tax benefits subject to the TRAs, unless certain assumptions apply. The TRAs will continue in effect until all such tax benefits have been utilized or expired, unless APAM exercises its right to terminate the agreements or payments under the agreements are accelerated in the event that APAM materially breaches any of its material obligations under the agreements.

The actual increase in tax basis, as well as the amount and timing of any payments under these agreements, will vary depending upon a number of factors, including the timing of sales or exchanges by the holders of limited partnership units, the price of the Class A common stock at the time of such sales or exchanges, whether such sales or exchanges are taxable, the amount and timing of the taxable income APAM generates in the future and the tax rate then applicable and the portion of APAM’s payments under the TRAs constituting imputed interest or depreciable basis or amortizable basis.

Payments under the TRAs, if any, will be made pro rata among all TRA counterparties entitled to payments on an annual basis to the extent APAM has sufficient taxable income to utilize the increased depreciation and amortization charges and imputed interest deductions. Artisan expects to make one or more payments under the TRAs, to the extent they are required, prior to or within 125 days after APAM’s U.S. federal income tax return is filed for each fiscal year. Interest on the TRA payments will accrue at a rate equal to one-year LIBOR plus 100 basis points from the due date (without extension) of such tax return until such payments are made.

Amounts payable under tax receivable agreements are estimates which may be impacted by factors, including but not limited to, expected tax rates, projected taxable income, and projected ownership levels and are subject to change. Changes in the estimates of amounts payable under tax receivable agreements are recorded as non-operating income (loss) in the Consolidated Statements of Operations.

The change in the Company's deferred tax assets related to the tax benefits described above and the change in corresponding amounts payable under the TRAs for the nine months ended September 30, 2018 is summarized as follows:

	Deferred Tax Asset - Amortizable basis	Amounts payable under tax receivable agreements
December 31, 2017	\$ 410,690	\$ 385,413
2018 Follow-On Offering	7,687	6,534
2018 Holdings Common Unit Exchanges	15,766	13,401
Amortization	(22,331)	—
Payments under TRA	—	(36,111)
Change in estimate	(10)	(251)
September 30, 2018	\$ 411,802	\$ 368,986

Net deferred tax assets comprise the following:

	As of September 30, 2018	As of December 31, 2017
Deferred tax assets:		
Amortizable basis ⁽¹⁾	\$ 411,802	\$ 410,690
Other ⁽²⁾	22,173	18,522
Total deferred tax assets	433,975	429,212
Less: valuation allowance ⁽³⁾	—	—
Net deferred tax assets	\$ 433,975	\$ 429,212

⁽¹⁾ Represents the unamortized step-up of tax basis and other tax attributes from the merger and partnership unit sales and exchanges described above. These future tax benefits are subject to the TRA agreements.

⁽²⁾ Represents the net deferred tax assets associated with the merger described above and other miscellaneous deferred tax assets. These future tax benefits are not subject to the TRA agreements.

⁽³⁾ Artisan assessed whether the deferred tax assets would be realizable and determined based on its history of taxable income that the benefits would more likely than not be realized. Accordingly, no valuation allowance is required.

Accounting standards establish a minimum threshold for recognizing, and a system for measuring, the benefits of income tax return positions in financial statements. There were no uncertain tax positions recorded as of September 30, 2018 and December 31, 2017.

In the normal course of business, Artisan is subject to examination by federal and certain state, local and foreign tax regulators. As of September 30, 2018, U.S. federal income tax returns for the years 2015 through 2017 are open and therefore subject to examination. State and local tax returns are generally subject to examination from 2014 to 2017. Foreign tax returns are generally subject to examination from 2014 to 2017.

Note 12. Accumulated Other Comprehensive Income (Loss)

Accumulated Other Comprehensive Income (Loss), net of tax, in the accompanying Condensed Consolidated Statements of Financial Condition represents the portion of accumulated other comprehensive income attributable to APAM, and consists of the following:

	As of September 30, 2018	As of December 31, 2017
Unrealized gain on investments, net of tax	\$ —	\$ 259
Foreign currency translation gain (loss)	(1,624)	(1,132)
Accumulated Other Comprehensive Income (Loss)	\$ (1,624)	\$ (873)

Comprehensive income (loss) attributable to noncontrolling interests - Artisan Partners Holdings in the Consolidated Statements of Comprehensive Income (Loss) represents the portion of comprehensive income (loss) attributable to the equity ownership interests in Holdings held by the limited partners of Holdings.

Note 13. Earnings Per Share

Basic earnings per share is computed under the two-class method by dividing income available to Class A common stockholders by the weighted average number of Class A common shares outstanding during the period. Unvested restricted share-based awards are excluded from the number of Class A common shares outstanding for the basic earnings per share calculation because the shares have not yet been earned by employees. Income available to Class A common stockholders is computed by reducing net income attributable to APAM by earnings (distributed and undistributed) allocated to participating securities, according to their respective rights to participate in those earnings. Unvested share-based awards are participating securities because the awards include non-forfeitable dividend rights during the vesting period. Class B and Class C common shares do not share in profits of APAM and therefore are not reflected in the calculations.

The computation of basic and diluted earnings per share under the two-class method for the three and nine months ended September 30, 2018 and 2017 were as follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
Basic and Diluted Earnings Per Share				
<i>Numerator:</i>				
Net income attributable to APAM	\$ 42,518	\$ 30,665	\$ 125,798	\$ 77,092
Less: Allocation to participating securities	4,628	2,654	15,475	12,086
Net income available to common stockholders	\$ 37,890	\$ 28,011	\$ 110,323	\$ 65,006
<i>Denominator:</i>				
Weighted average shares outstanding	49,399,553	45,890,291	48,607,837	44,068,172
Earnings per share	\$ 0.77	\$ 0.61	\$ 2.27	\$ 1.48

Allocation to participating securities in the table above primarily represents dividends paid to holders of unvested restricted share-based awards, which reduces net income available to common stockholders.

There were no dilutive securities outstanding during the three and nine months ended September 30, 2018 and 2017. The Holdings limited partnership units are anti-dilutive primarily due to the impact of public company expenses. Unvested restricted share-based awards are considered participating securities and are therefore anti-dilutive. The following table summarizes the weighted-average shares outstanding that are excluded from the calculation of diluted earnings per share because their effect would have been anti-dilutive:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
Anti-Dilutive Weighted Average Shares Outstanding				
Holdings limited partnership units	22,951,357	25,715,238	23,505,920	27,318,732
Unvested restricted share-based awards	4,847,786	4,189,441	4,859,526	4,200,142
Total	27,799,143	29,904,679	28,365,446	31,518,874

Note 14. Indemnifications

In the normal course of business, APAM enters into agreements that include indemnities in favor of third parties. Holdings has also agreed to indemnify APAM as its general partner, Artisan Investment Corporation ("AIC") as its former general partner, the directors and officers of APAM, the directors and officers of AIC as its former general partner, the members of its former Advisory Committee, and its partners, directors, officers, employees and agents. Holdings' subsidiaries may also have similar agreements to indemnify their respective general partner(s), directors, officers, directors and officers of their general partner(s), partners, members, employees, and agents. The Company's maximum exposure under these arrangements is unknown, as this would involve future claims that may be made against us that have not yet occurred. APAM maintains insurance policies that may provide coverage against certain claims under these indemnities.

Note 15. Related Party Transactions

Several of the current executive officers of APAM and certain members of APAM's board (or their affiliates) are limited partners of Holdings. As a result, certain transactions (such as TRA payments) between Artisan and the limited partners of Holdings are considered to be related party transactions with respect to these persons.

Affiliate transactions—Artisan Funds

Artisan has an agreement to serve as the investment adviser to Artisan Funds, with which certain Artisan employees are affiliated. Under the terms of the agreement, which generally is reviewed and continued by the board of directors of Artisan Funds annually, a fee is paid to Artisan based on an annual percentage of the average daily net assets of each Artisan Fund ranging from 0.625% to 1.25%. Artisan generally collects revenues related to these services on the last business day of each month and records them in Management Fees in the Consolidated Statement of Operations. Artisan has contractually agreed to waive its management fees or reimburse for expenses incurred to the extent necessary to limit annualized ordinary operating expenses incurred by certain of the Artisan Funds to not more than a fixed percentage (ranging from 0.88% to 1.50%) of a fund's average daily net assets. In addition, Artisan may voluntarily waive fees or reimburse any of the Artisan Funds for other expenses. The officers and a director of Artisan Funds who are affiliated with Artisan receive no compensation from the funds.

Fees for managing Artisan Funds and amounts waived or reimbursed by Artisan for fees and expenses (including management fees) are as follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
Investment management fees (Gross of fee waivers/expense reimbursements)	\$ 125,486	\$ 121,004	\$ 376,066	\$ 347,778
Fee waivers / expense reimbursements	\$ 94	\$ 150	\$ 336	\$ 462

Affiliate transactions—Artisan Global Funds

Artisan has an agreement to serve as the investment manager to Artisan Global Funds, with which certain Artisan employees are affiliated. Under the terms of these agreements, a fee is paid based on an annual percentage of the average daily net assets of each fund ranging from 0.75% to 1.75%. Artisan reimburses each sub-fund of Artisan Global Funds to the extent that sub-fund's expenses, not including Artisan's fee, exceed certain levels, which range from 0.10% to 0.20%. In addition, Artisan may voluntarily waive fees or reimburse any of the Artisan Global Funds for other expenses. The directors of Artisan Global Funds who are affiliated with Artisan receive no compensation from the funds.

Fees for managing Artisan Global Funds and amounts reimbursed to Artisan Global Funds by Artisan are as follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
Investment management fees (Gross of fee waivers/expense reimbursements)	\$ 9,109	\$ 7,672	\$ 26,600	\$ 22,187
Elimination of management fees from consolidated investment products ⁽¹⁾	(19)	—	(45)	—
Consolidated investment management fees (Gross of fee waivers / expense reimbursements)	9,090	7,672	26,555	22,187
Fee waivers / expense reimbursements	\$ 146	\$ 60	\$ 287	\$ 130
Elimination of fee waivers / expense reimbursements from consolidated investment products ⁽¹⁾	(146)	—	(286)	—
Consolidated fee waivers / expense reimbursements	—	60	1	130

⁽¹⁾ Investment management fees and expense waivers related to consolidated investment products were eliminated from revenue upon consolidation.

Affiliate transactions—Artisan Sponsored Private Funds

Pursuant to written agreements, Artisan serves as the investment manager of certain Artisan sponsored private funds. Under the terms of these agreements, Artisan earns a management fee and is entitled to receive an allocation of profits. In 2017, Artisan made seed investments of \$32.3 million in the private funds. Certain related parties, including employees, officers and members of the Company's board invested an additional \$34.6 million in the funds. These related party investors currently do not pay a management fee or incentive allocation. In addition, for a period of time following the formation of the private funds, Artisan has agreed to reimburse the funds to the extent that expenses, excluding Artisan's management fee and transaction related costs, exceed 1.00% per annum of the net assets of the funds. Artisan may also voluntarily waive fees or reimburse the funds for other expenses.

Fees for managing the privately offered funds and amounts reimbursed to the privately offered funds by Artisan are as follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
Artisan sponsored private funds				
Investment management fees (Gross of fee waivers/expense reimbursements)	\$ 210	\$ 3	\$ 441	\$ 3
Elimination of management fees from consolidated investment products ⁽¹⁾	(18)	(3)	(249)	(3)
Consolidated investment management fees (Gross of fee waivers / expense reimbursements)	192	—	192	—
Fee waivers / expense reimbursements	\$ 74	\$ 82	\$ 148	\$ 115
Elimination of fee waivers / expense reimbursements from consolidated investment products ⁽¹⁾	(74)	(82)	(148)	(115)
Consolidated fee waivers / expense reimbursements	—	—	—	—

⁽¹⁾ Investment management fees and expense waivers related to consolidated investment products were eliminated from revenue upon consolidation.

Note 16. Subsequent Events

Distributions and dividends

On October 25, 2018, APAM, acting as the general partner of Artisan Partners Holdings, declared a distribution by Artisan Partners Holdings of \$23.4 million to holders of Artisan Partners Holdings partnership units, including APAM. On the same date, the board of directors of APAM declared a quarterly dividend of \$0.60 per share of Class A common stock. The APAM dividend is payable on November 30, 2018, to shareholders of record as of November 16, 2018.

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

Overview and Recent Highlights

We are an investment management firm focused on providing high-value added, active investment strategies to sophisticated clients globally. As of September 30, 2018, our eight autonomous investment teams managed a total of 17 investment strategies across multiple asset classes and investment styles. Over our firm's history, we have created new investment strategies that can use a broad array of securities, instruments, and techniques (which we call degrees of freedom) to differentiate returns and manage risk.

We focus our distribution efforts on sophisticated investors and asset allocators, including institutions and intermediaries that operate with institutional-like decision-making processes. We offer our investment strategies to clients and investors through multiple investment vehicles, including separate accounts and different types of pooled vehicles. As of September 30, 2018, approximately 80% of our assets under management were managed for clients and investors domiciled in the U.S. and 20% of our assets under management were managed for clients and investors domiciled outside of the U.S.

As a high-value added investment manager we expect that long-term investment performance will be the primary driver of our long-term business and financial results. If we maintain and evolve existing investment strategies and launch new investment strategies that meet the needs of and generate attractive outcomes for sophisticated asset allocators, we are confident that we will continue to generate strong business and financial results.

Over shorter time periods, changes in our business and financial results are largely driven by market conditions and fluctuations in our assets under management that may not necessarily be the result of our long-term investment performance or the long-term demand for our strategies. For this reason, we expect that our business and financial results will be lumpy over time.

During the third quarter of 2018, our assets under management increased to \$116.6 billion, an increase of \$2.4 billion, or 2%, compared to \$114.2 billion at June 30, 2018, as a result of \$3.9 billion in market appreciation partially offset by \$1.5 billion of net client cash outflows. Compared to September 30, 2017, assets under management increased \$2.9 billion, or 3%, due to \$7.8 billion in market appreciation, partially offset by \$4.9 billion of net client cash outflows. Average assets under management for the September 2018 quarter was \$116.2 billion, an increase of 4% from the average of \$111.4 billion for the September 2017 quarter.

We strive to maintain a financial model that is transparent and predictable. We derive essentially all of our revenues from investment management fees, nearly all of which are based on a specified percentage of clients' average assets under management. A majority of our expenses, including most of our compensation expense, vary directly with changes in our revenues. We invest thoughtfully to support our investment teams and future growth, while also paying out to shareholders and partners a majority of the cash that we generate from operations through distributions and dividends.

Revenues were \$637.1 million for the nine months ended September 30, 2018, a 9% increase from revenues of \$584.9 million for the nine months ended September 30, 2017. GAAP operating margin was 37.8% for the nine months ended September 30, 2018, compared to 35.1% for the nine months ended September 30, 2017. Adjusted operating margin was 37.8% for the nine months ended September 30, 2018, compared to 37.2% for the nine months ended September 30, 2017.

The Tax Cuts and Jobs Act ("Tax Reform") was enacted in December 2017. As a result of Tax Reform, the U.S. federal corporate tax rate decreased from 35% to 21%, which was the largest driver of lowering APAM's effective tax rate from 24.7% for nine months ended September 30, 2017, to 15.7% for the nine months ended September 30, 2018. The estimated adjusted effective tax rate decreased from 37% to 23.5%.

Business highlights for the third quarter of 2018 included:

- Our assets under management as of September 30, 2018 were \$116.6 billion and average assets under management for the third quarter were \$116.2 billion.
- Our investment teams continue to generate strong absolute and relative investment returns for clients and investors. Thirteen of our 15 investment strategies with a publicly available mutual fund have outperformed their broad-based benchmarks since inception, net of fees.
- We declared and paid dividends of \$0.60 per share of Class A common stock.

The following occurred since September 30, 2018:

- Effective October 1, 2018, each of the four Associate Portfolio Managers on the Global Value team were promoted to Co-Portfolio Managers. Concurrently, the Artisan Global Value team evolved into two distinct and autonomous investment teams—the International Value team led by David Samra and the Global Value team led by Daniel O'Keefe.
- In October 2018, Rezo Kanovich joined Artisan as a managing director and portfolio manager on the Global Equity team. Effective October 15, 2018, Mr. Kanovich became sole portfolio manager of the Non-U.S. Small-Cap Growth strategy, including Artisan International Small Cap Fund. Concurrent with this change the strategy and fund re-opened to new investors.

- Between September 30, 2018 and October 29, 2018, our AUM declined to approximately \$104 billion, primarily due to a sharp decline in global equity markets. We have designed, and we operate, our firm and financial model with the expectation that markets will be volatile. As noted above, the majority of our expenses, including most of our investment team compensation, fluctuate automatically with changes in AUM and revenues. The variable expense model results in a more stable environment for our investment talent and helps us to remain focused on our long-term business objectives.

Organizational Structure

Organizational Structure

Our operations are conducted through Artisan Partners Holdings (“Holdings”) and its subsidiaries. On March 12, 2013, Artisan Partners Asset Management Inc. (“APAM”) and Artisan Partners Holdings LP completed a series of transactions (“the IPO Reorganization”) to reorganize their capital structures in connection with the initial public offering (“IPO”) of APAM’s Class A common stock. The IPO Reorganization and IPO were completed on March 12, 2013. The IPO Reorganization was designed to create a capital structure that preserves our ability to conduct our business through Holdings, while permitting us to raise additional capital and provide access to liquidity through a public company.

Our employees and other limited partners of Holdings held approximately 30% of the equity interests in Holdings as of September 30, 2018. As a result, our results reflect that significant noncontrolling interest.

We operate our business in a single segment.

2018 Follow-On Offering and Holdings Unit Exchanges

On February 27, 2018, APAM completed an offering of 644,424 shares of Class A common stock and utilized all of the proceeds to purchase an aggregate of 644,424 common units from certain limited partners of Holdings. In connection with the offering, APAM received 644,424 GP units of Holdings.

During the nine months ended September 30, 2018, certain limited partners of Holdings exchanged 1,538,916 common units (along with a corresponding number of shares of Class B or C common stock of APAM) for 1,538,916 shares of Class A common stock. In connection with the exchanges, APAM received 1,538,916 GP units of Holdings.

APAM’s equity ownership interest in Holdings increased from 67% at December 31, 2017 to 70% at September 30, 2018, as a result of these transactions and other equity transactions during the period.

Financial Overview

Economic Environment

Global equity and debt market conditions can materially affect our financial performance. The following table presents the total returns of relevant market indices for the three and nine months ended September 30, 2018 and 2017:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
S&P 500 total returns	7.7 %	4.5%	10.6 %	14.2%
MSCI All Country World total returns	4.3 %	5.2%	3.8 %	17.3%
MSCI EAFE total returns	1.4 %	5.4%	(1.4)%	20.0%
Russell Midcap [®] total returns	5.0 %	3.5%	7.5 %	11.7%
MSCI Emerging Markets Index	(1.1)%	7.9%	(7.7)%	27.8%
ICE BofA Merrill Lynch U.S. High Yield Master II Total Return Index	2.4 %	2.0%	2.5 %	7.1%

Key Performance Indicators

When we review our business and financial performance we consider, among other things, the following:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
(unaudited; dollars in millions)				
Assets under management at period end	\$ 116,573	\$ 113,688	\$ 116,573	\$ 113,688
Average assets under management ⁽¹⁾	\$ 116,221	\$ 111,372	\$ 116,769	\$ 106,622
Net client cash flows	\$ (1,545)	\$ (1,157)	\$ (2,487)	\$ (2,951)
Total revenues	\$ 212.8	\$ 204.6	\$ 637.1	\$ 584.9
Weighted average fee ⁽²⁾	72.7 bps	72.9 bps	73.0 bps	73.3 bps
Operating margin	38.5%	39.4%	37.8%	35.1%
Adjusted operating margin ⁽³⁾	38.5%	39.4%	37.8%	37.2%

⁽¹⁾ We compute average assets under management by averaging day-end assets under management for the applicable period.

⁽²⁾ We compute our weighted average fee by dividing annualized investment management fees and performance fees by average assets under management for the applicable period.

⁽³⁾ Adjusted measures are non-GAAP measures and are explained and reconciled to the comparable GAAP measures in “Supplemental Non-GAAP Financial Information” below.

Management fees and assets under management within our consolidated investment products are excluded from the weighted average fee calculations and from total revenues, since any such revenues are eliminated upon consolidation. Assets under management within Artisan sponsored private funds are included in the reported firm-wide, separate account, and institutional assets under management figures reported below.

Assets Under Management and Investment Performance

Changes to our operating results from one period to another are primarily caused by changes in the amount of our assets under management. Changes in the relative composition of our assets under management among our investment strategies and vehicles and the effective fee rates on our products also impact our operating results.

The amount and composition of our assets under management are, and will continue to be, influenced by a variety of factors including, among others:

- investment performance, including fluctuations in both the financial markets and foreign currency exchange rates and the quality of our investment decisions;
- flows of client assets into and out of our various strategies and investment vehicles;
- our decision to close strategies or limit the growth of assets in a strategy or a vehicle when we believe it is in the best interest of our clients; as well as our decision to re-open strategies, in part or entirely;
- our ability to attract and retain qualified investment, management, and marketing and client service professionals;
- industry trends towards products or strategies that we do not offer;
- competitive conditions in the investment management and broader financial services sectors; and
- investor sentiment and confidence.

The table below sets forth changes in our total assets under management:

	For the Three Months Ended September 30,		Period-to-Period	
	2018	2017	\$	%
	(unaudited; in millions)			
Beginning assets under management	\$ 114,190	\$ 109,405	\$ 4,785	4.4 %
Gross client cash inflows	3,642	3,660	(18)	(0.5)%
Gross client cash outflows	(5,187)	(4,817)	(370)	(7.7)%
Net client cash flows	(1,545)	(1,157)	(388)	(33.5)%
Market appreciation (depreciation) ⁽¹⁾	3,928	5,440	(1,512)	(27.8)%
Net transfers ⁽²⁾	—	—	—	— %
Ending assets under management	\$ 116,573	\$ 113,688	\$ 2,885	2.5 %
Average assets under management	\$ 116,221	\$ 111,372	\$ 4,849	4.4 %

⁽¹⁾ Includes the impact of translating the value of assets under management denominated in non-USD currencies into U.S. dollars. The impact was immaterial for the periods presented.

⁽²⁾ Net transfers represent certain amounts that we have identified as having been transferred out of one investment strategy or investment vehicle and into another strategy or vehicle.

	For the Nine Months Ended September 30,		Period-to-Period	
	2018	2017	\$	%
	(unaudited; in millions)			
Beginning assets under management	\$ 115,494	\$ 96,845	\$ 18,649	19.3 %
Gross client cash inflows	13,755	13,028	727	5.6 %
Gross client cash outflows	(16,242)	(15,979)	(263)	(1.6)%
Net client cash flows	(2,487)	(2,951)	464	15.7 %
Market appreciation (depreciation) ⁽¹⁾	3,566	19,794	(16,228)	(82.0)%
Net transfers ⁽²⁾	—	—	—	— %
Ending assets under management	\$ 116,573	\$ 113,688	\$ 2,885	2.5 %
Average assets under management	\$ 116,769	\$ 106,622	\$ 10,147	9.5 %

⁽¹⁾ Includes the impact of translating the value of assets under management denominated in non-USD currencies into U.S. dollars. The impact was immaterial for the periods presented.

⁽²⁾ Net transfers represent certain amounts that we have identified as having been transferred out of one investment strategy or investment vehicle and into another strategy or vehicle.

Across the firm, we experienced total net outflows of \$1.5 billion and \$2.5 billion during the three and nine months ended September 30, 2018, respectively. Our U.S. Mid-Cap Growth, U.S. Mid-Cap Value, and Non-U.S. Growth strategies had net outflows of \$604 million, \$315 million and \$920 million during the three months ended September 30, 2018, respectively, and net outflows of \$2.5 billion, \$985 million and \$1.6 billion, during the nine months ended September 30, 2018, respectively. We anticipate that these trends will continue in the near term.

We monitor the availability of attractive investment opportunities relative to the amount of assets we manage in each of our investment strategies. When appropriate, we will close a strategy to new investors or otherwise take action to slow or restrict its growth, even though our aggregate assets under management may be negatively impacted in the short term. We may also re-open a strategy, widely or selectively, to fill available capacity or manage the diversification of our client base in that strategy. We believe that management of our investment capacity protects our ability to manage assets successfully, which protects the interests of our clients and, in the long term, protects our ability to retain client assets and maintain our profit margins.

As of the date of this filing, our Non-U.S. Growth, Non-U.S. Value, U.S. Mid-Cap Growth and U.S. Small-Cap Growth strategies are closed to most new investors and client relationships. Our Global Value and Global Opportunities strategies are open across pooled vehicles, but closed to most new separate account clients. We may selectively accept additional separate account clients in those strategies, but we are managing asset flows into those strategies with a bias towards assets from pooled vehicles.

When we close or otherwise restrict the growth of a strategy, we typically continue to allow additional investments in the strategy by existing clients and certain related entities. We may also permit new investments by other eligible investors in our discretion. As a result, during a given period we may have net client cash inflows in a closed strategy. However, when a strategy is closed or its growth is restricted we expect there to be periods of net client cash outflows.

In November 2018 we expect the Artisan Funds will make their annual income and capital gains distributions. Based on our current estimates and assumptions, we expect this year's distributions to result in approximately \$850 million of net client cash outflows from investors who choose not to reinvest their dividends. In November 2017 those distributions resulted in approximately \$510 million of net client cash outflows. In addition, the November 2018 distribution (estimates of which we expect Artisan Funds will disclose in advance of the record date) may cause increased mutual fund redemptions.

The table below sets forth the total assets under management for our investment teams and strategies as of September 30, 2018, the inception date for each investment composite, and the average annual total returns for each composite (gross of fees) and its respective broad-based benchmark (and style benchmark, if applicable) over a multi-horizon time period as of September 30, 2018. Returns for periods less than one year are not annualized.

We measure investment performance based upon the results of our "composites", which represent the aggregate performance of all discretionary client accounts, including mutual funds, invested in the same strategy except those accounts with respect to which we believe client-imposed investment restrictions may have a material impact on portfolio construction and those accounts managed in a currency other than U.S. dollars. The results of these excluded accounts, which represented approximately 11% of our assets under management at September 30, 2018, are maintained in separate composites the results of which are not included below.

Investment Team and Strategy	Inception	Strategy AUM	Average Annual Total Returns (gross) (%)					Average Annual Value-Added ⁽¹⁾ Since Inception (bps)
	Date	(in \$MM)	1 YR	3 YR	5 YR	10 YR	Inception	
Growth Team								
Global Opportunities Strategy	2/1/2007	\$ 17,241	13.56%	17.98%	12.81%	13.97%	11.04%	583
MSCI All Country World Index			9.77%	13.38%	8.66%	8.18%	5.21%	
Global Discovery Strategy	9/1/2017	\$ 132	22.32%	—%	—%	—%	21.96%	1,102
MSCI All Country World Index			9.77%	—%	—%	—%	10.94%	
U.S. Mid-Cap Growth Strategy	4/1/1997	\$ 12,324	22.75%	15.05%	11.29%	14.59%	15.43%	491
Russell Midcap® Index			13.98%	14.50%	11.65%	12.30%	10.52%	
Russell Midcap® Growth Index			21.10%	16.63%	12.99%	13.45%	9.58%	
U.S. Small-Cap Growth Strategy	4/1/1995	\$ 3,092	36.45%	22.33%	14.14%	15.91%	11.40%	165
Russell 2000® Index			15.24%	17.10%	11.07%	11.11%	9.75%	
Russell 2000® Growth Index			21.06%	17.96%	12.13%	12.65%	8.39%	
Global Equity Team								
Global Equity Strategy	4/1/2010	\$ 1,543	18.36%	15.82%	11.33%	—%	13.40%	467
MSCI All Country World Index			9.77%	13.38%	8.66%	—%	8.73%	
Non-U.S. Growth Strategy	1/1/1996	\$ 25,753	5.81%	9.73%	5.27%	7.96%	10.24%	536
MSCI EAFE Index			2.74%	9.23%	4.41%	5.38%	4.88%	
Non-U.S. Small-Cap Growth Strategy	1/1/2002	\$ 606	10.46%	9.80%	6.42%	11.10%	13.40%	320
MSCI EAFE Small Cap Index			3.73%	12.38%	7.95%	9.67%	10.20%	
U.S. Value Team								
Value Equity Strategy	7/1/2005	\$ 2,628	10.62%	18.02%	10.42%	10.93%	8.84%	(50)
Russell 1000® Index			17.76%	17.05%	13.66%	12.08%	9.34%	
Russell 1000® Value Index			9.45%	13.54%	10.71%	9.78%	7.63%	
U.S. Mid-Cap Value Strategy	4/1/1999	\$ 5,736	9.72%	13.83%	8.19%	11.24%	13.22%	357
Russell Midcap® Index			13.98%	14.50%	11.65%	12.30%	9.65%	
Russell Midcap® Value Index			8.81%	13.08%	10.71%	11.28%	9.96%	
Global Value Team								
Global Value Strategy	7/1/2007	\$ 20,249	5.53%	13.39%	9.63%	12.13%	8.88%	426
MSCI All Country World Index			9.77%	13.38%	8.66%	8.18%	4.62%	
Non-U.S. Value Strategy	7/1/2002	\$ 21,189	(0.83)%	10.11%	6.72%	10.55%	12.13%	580
MSCI EAFE Index			2.74%	9.23%	4.41%	5.38%	6.33%	
Emerging Markets Team								
Emerging Markets Strategy	7/1/2006	\$ 193	(1.29)%	17.23%	6.07%	5.52%	5.66%	40
MSCI Emerging Markets Index			(0.81)%	12.35%	3.61%	5.40%	5.26%	
Credit Team								
High Income Strategy	4/1/2014	\$ 3,237	5.69%	9.76%	—%	—%	7.61%	293
ICE BofAML US High Yield Master II Total Return Index			2.94%	8.19%	—%	—%	4.68%	
Developing World Team								
Developing World Strategy	7/1/2015	\$ 2,282	(8.73)%	13.08%	—%	—%	6.00%	121
MSCI Emerging Markets Index			(0.81)%	12.35%	—%	—%	4.79%	
Thematic Team								
Thematic Strategy	5/1/2017	\$ 186	35.10%	—%	—%	—%	38.32%	2,083
S&P 500 Market Index (Total Return)			17.91%	—%	—%	—%	17.49%	
Other Assets Under Management ²		\$ 182						
Total Assets Under Management		\$ 116,573						

⁽¹⁾ Value-added is the amount in basis points by which the average annual gross composite return of each of our strategies has outperformed the broad-based market index most commonly used by our clients to compare the performance of the relevant strategy. Value-added for periods less than one year is not annualized. The Artisan High Income Strategy may hold loans and other security types that may not be included in the ICE BofA Merrill Lynch U.S. High Yield Master II Total Return Index. At times, this causes material differences in relative performance. The Global Equity, Global Discovery, and Thematic strategies' investments in initial public offerings (IPOs) made a material contribution to performance. IPO investments may contribute significantly to a small portfolio's return, an effect that will generally decrease as assets grow. IPO investments may be unavailable in the future.

⁽²⁾ Other Assets Under Management includes AUM managed by the Credit Team in the Credit Opportunities strategy and by the Thematic Team in the Thematic Long/Short strategy, respectively. Strategy specific information has been omitted.

The tables below set forth changes in our assets under management by investment team:

Three Months Ended	By Investment Team									
	Growth	Global Equity	U.S. Value	Global Value	Emerging Markets	Credit	Developing World	Thematic	Total	
September 30, 2018	(unaudited; in millions)									
Beginning assets under management	\$ 31,089	\$ 28,064	\$ 8,308	\$ 40,767	\$ 197	\$ 3,072	\$ 2,506	\$ 187	\$ 114,190	
Gross client cash inflows	1,289	464	317	1,056	6	285	107	118	3,642	
Gross client cash outflows	(1,549)	(1,451)	(515)	(1,338)	(5)	(134)	(190)	(5)	(5,187)	
Net client cash flows	(260)	(987)	(198)	(282)	1	151	(83)	113	(1,545)	
Market appreciation (depreciation)	1,960	825	254	953	(5)	68	(141)	14	3,928	
Net transfers ⁽¹⁾	—	—	—	—	—	—	—	—	—	
Ending assets under management	\$ 32,789	\$ 27,902	\$ 8,364	\$ 41,438	\$ 193	\$ 3,291	\$ 2,282	\$ 314	\$ 116,573	
Average assets under management	\$ 32,098	\$ 28,190	\$ 8,475	\$ 41,451	\$ 195	\$ 3,174	\$ 2,390	\$ 249	\$ 116,221	
September 30, 2017										
Beginning assets under management	\$ 29,881	\$ 28,194	\$ 8,692	\$ 38,547	\$ 277	\$ 2,306	1,496	\$ 12	\$ 109,405	
Gross client cash inflows	1,019	533	232	1,163	2	224	485	2	3,660	
Gross client cash outflows	(1,310)	(1,527)	(552)	(1,262)	(2)	(114)	(49)	(1)	(4,817)	
Net client cash flows	(291)	(994)	(320)	(99)	—	110	436	1	(1,157)	
Market appreciation (depreciation)	1,055	1,633	303	2,231	25	57	134	2	5,440	
Net transfers ⁽¹⁾	—	—	—	—	—	—	—	—	—	
Ending assets under management	\$ 30,645	\$ 28,833	\$ 8,675	\$ 40,679	\$ 302	\$ 2,473	2,066	15	\$ 113,688	
Average assets under management	\$ 30,236	\$ 28,541	\$ 8,660	\$ 39,425	\$ 293	\$ 2,394	1,809	\$ 14	\$ 111,372	

⁽¹⁾ Net transfers represent certain amounts that we have identified as having been transferred out of one investment strategy or investment vehicle and into another strategy or vehicle.

Nine Months Ended	By Investment Team									
	Growth	Global Equity	U.S. Value	Global Value	Emerging Markets	Credit	Developing World	Thematic	Total	
September 30, 2018	(unaudited; in millions)									
Beginning assets under management	\$ 30,628	\$ 29,235	\$ 8,765	\$ 41,687	\$ 282	\$ 2,554	\$ 2,253	\$ 90	\$ 115,494	
Gross client cash inflows	3,873	2,554	852	4,305	23	1,205	733	210	13,755	
Gross client cash outflows	(5,638)	(4,326)	(1,591)	(3,628)	(90)	(580)	(376)	(13)	(16,242)	
Net client cash flows	(1,765)	(1,772)	(739)	677	(67)	625	357	197	(2,487)	
Market appreciation (depreciation)	3,926	439	338	(926)	(22)	112	(328)	27	3,566	
Net transfers ⁽¹⁾	—	—	—	—	—	—	—	—	—	
Ending assets under management	\$ 32,789	\$ 27,902	\$ 8,364	\$ 41,438	\$ 193	\$ 3,291	\$ 2,282	\$ 314	\$ 116,573	
Average assets under management	\$ 31,732	\$ 28,885	\$ 8,460	\$ 41,932	\$ 255	\$ 2,874	\$ 2,456	\$ 175	\$ 116,769	
September 30, 2017										
Beginning assets under management	\$ 25,714	\$ 25,510	\$ 8,588	\$ 33,940	\$ 228	\$ 1,878	987	\$ —	\$ 96,845	
Gross client cash inflows	3,644	2,357	1,348	3,849	9	921	886	14	13,028	
Gross client cash outflows	(4,177)	(5,443)	(1,941)	(3,743)	(5)	(485)	(184)	(1)	(15,979)	
Net client cash flows	(533)	(3,086)	(593)	106	4	436	702	13	(2,951)	
Market appreciation (depreciation)	5,464	6,409	680	6,633	70	159	377	2	19,794	
Net transfers ⁽¹⁾	—	—	—	—	—	—	—	—	—	
Ending assets under management	\$ 30,645	\$ 28,833	\$ 8,675	\$ 40,679	\$ 302	\$ 2,473	2,066	15	\$ 113,688	
Average assets under management ⁽²⁾	\$ 28,809	\$ 27,701	\$ 8,732	\$ 37,425	\$ 269	\$ 2,216	1,462	13	\$ 106,622	

⁽¹⁾ Net transfers represent certain amounts that we have identified as having been transferred out of one investment strategy or investment vehicle and into another strategy or vehicle.

⁽²⁾ For the Thematic team, average assets under management is for the period between April 24, 2017, when the team's first strategy began operations, and September 30, 2017.

The goal of our marketing, distribution and client services efforts is to establish and maintain a client base that is diversified by investment strategy, investment vehicle and distribution channel. As distribution channels have evolved to have more institutional-like decision making processes and longer-term investment horizons, we have expanded our distribution efforts into those areas.

The table below sets forth our assets under management by distribution channel:

	As of September 30, 2018 ⁽¹⁾		As of September 30, 2017 ⁽¹⁾	
	\$ in millions	% of total	\$ in millions	% of total
	(unaudited)		(unaudited)	
Institutional	\$ 75,824	65.1%	\$ 75,121	66.1%
Intermediary	35,817	30.7%	33,452	29.4%
Retail	4,932	4.2%	5,115	4.5%
Ending Assets Under Management	\$ 116,573	100.0%	\$ 113,688	100.0%

⁽¹⁾ The allocation of assets under management by distribution channel involves the use of estimates and the exercise of judgment.

Our institutional channel includes assets under management sourced from defined contribution plan clients, which makes up approximately 13% of our total assets under management as of September 30, 2018.

The following tables set forth the changes in our assets under management for Artisan Funds, Artisan Global Funds and separate accounts:

Three Months Ended September 30, 2018	Artisan Funds & Artisan Global Funds	Separate Accounts	Total
	(unaudited; in millions)		
Beginning assets under management	\$ 57,409	\$ 56,781	\$ 114,190
Gross client cash inflows	2,453	1,189	3,642
Gross client cash outflows	(3,657)	(1,530)	(5,187)
Net client cash flows	(1,204)	(341)	(1,545)
Market appreciation (depreciation)	1,711	2,217	3,928
Net transfers ⁽¹⁾	—	—	—
Ending assets under management	\$ 57,916	\$ 58,657	\$ 116,573
Average assets under management	\$ 58,149	\$ 58,072	\$ 116,221
September 30, 2017			
Beginning assets under management	\$ 54,588	\$ 54,817	\$ 109,405
Gross client cash inflows	2,948	712	3,660
Gross client cash outflows	(3,246)	(1,571)	(4,817)
Net client cash flows	(298)	(859)	(1,157)
Market appreciation (depreciation)	2,636	2,804	5,440
Net transfers ⁽¹⁾	(445)	445	—
Ending assets under management	\$ 56,481	\$ 57,207	\$ 113,688
Average assets under management	\$ 55,358	\$ 56,014	\$ 111,372

⁽¹⁾ Net transfers represent certain amounts that we have identified as having been transferred out of one investment strategy or investment vehicle and into another strategy or vehicle.

Nine Months Ended September 30, 2018	Artisan Funds & Artisan Global Funds	Separate Accounts	Total
	(unaudited; in millions)		
Beginning assets under management	\$ 57,349	\$ 58,145	\$ 115,494
Gross client cash inflows	10,076	3,679	13,755
Gross client cash outflows	(10,405)	(5,837)	(16,242)
Net client cash flows	(329)	(2,158)	(2,487)
Market appreciation (depreciation)	1,150	2,416	3,566
Net transfers ⁽¹⁾	(254)	254	—
Ending assets under management	\$ 57,916	\$ 58,657	\$ 116,573
Average assets under management	\$ 58,480	\$ 58,289	\$ 116,769
September 30, 2017			
Beginning assets under management	\$ 49,367	\$ 47,478	\$ 96,845
Gross client cash inflows	9,602	3,426	13,028
Gross client cash outflows	(11,663)	(4,316)	(15,979)
Net client cash flows	(2,061)	(890)	(2,951)
Market appreciation (depreciation)	9,703	10,091	19,794
Net transfers ⁽¹⁾	(528)	528	—
Ending assets under management	\$ 56,481	\$ 57,207	\$ 113,688
Average assets under management	\$ 53,678	\$ 52,965	\$ 106,622

⁽¹⁾ Net transfers represent certain amounts that we have identified as having been transferred out of one investment strategy or investment vehicle and into another strategy or vehicle.

Results of Operations

Three months ended September 30, 2018, Compared to Three months ended September 30, 2017

	For the Three Months Ended September 30,		For the Period-to-Period	
	2018	2017	\$	%
(unaudited; in millions, except share data)				
Statements of operations data:				
Revenues	\$ 212.8	\$ 204.6	\$ 8.2	4 %
Operating Expenses				
Total compensation and benefits	102.7	98.5	4.2	4 %
Other operating expenses	28.3	25.4	2.9	11 %
Total operating expenses	131.0	123.9	7.1	6 %
Total operating income	81.8	80.7	1.1	1 %
Non-operating income (expense)				
Interest expense	(2.9)	(2.9)	—	— %
Other non-operating income	2.0	2.2	(0.2)	(9)%
Total non-operating income (expense)	(0.9)	(0.7)	(0.2)	(29)%
Income before income taxes	80.9	80.0	0.9	1 %
Provision for income taxes	14.2	21.5	(7.3)	(34)%
Net income before noncontrolling interests	66.7	58.5	8.2	14 %
Less: Noncontrolling interests - Artisan Partners Holdings	24.0	27.2	(3.2)	(12)%
Less: Noncontrolling interests - consolidated investment products	0.2	0.6	(0.4)	(67)%
Net income attributable to Artisan Partners Asset Management Inc.	<u>\$ 42.5</u>	<u>\$ 30.7</u>	<u>\$ 11.8</u>	38 %
Share Data				
Net income available to Class A common stock per basic and diluted share	\$ 0.77	\$ 0.61		
Weighted average basic and diluted shares of Class A common stock outstanding	49,399,553	45,890,291		

Revenues

Essentially all of our revenues consist of investment management fees earned from managing clients' assets. Our investment management fees fluctuate based on a number of factors, including the total value of our assets under management, the composition of assets under management among investment vehicles and our investment strategies, changes in the investment management fee rates on our products, the extent to which we enter into fee arrangements that differ from our standard fee schedules, which can be affected by custom and the competitive landscape in the relevant market, and, for the accounts on which we earn performance-based fees, the investment performance of those accounts relative to their designated benchmarks.

The increase in revenues of \$8.2 million, or 4%, for the three months ended September 30, 2018, compared to the three months ended September 30, 2017, was driven primarily by a \$4.8 billion, or 4%, increase in our average assets under management. The weighted average investment management fee was 72.7 basis points for the three months ended September 30, 2018 compared to 72.9 basis points for the three months ended September 30, 2017.

The following table sets forth the weighted average fee and composition of revenue and assets under management by investment vehicle:

For the Three Months Ended September 30,	Separate Accounts		Artisan Funds and Artisan Global Funds	
	2018	2017	2018	2017
(unaudited; dollars in millions)				
Investment management fees	\$ 78.3	\$ 75.9	\$ 134.5	\$ 128.7
Weighted average fee	53.5 basis points	53.8 basis points	91.8 basis points	92.2 basis points
Percentage of ending AUM	50%	50%	50%	50%

Separate account assets under management consist of the assets we manage in or through vehicles other than Artisan Funds or Artisan Global Funds, including assets we manage in traditional separate accounts, as well as assets we manage in Artisan-branded collective investment trusts, in funds (both public and private) that we sub-advise, and in our own privately offered funds.

Operating Expenses

The increase in total operating expenses of \$7.1 million for the three months ended September 30, 2018, compared to the three months ended September 30, 2017, was primarily a result of higher compensation expense due to increased revenues, increases in salary and benefit costs, an increase in occupancy expense related to the investment team relocation and increased technology costs.

In October 2018, we invested in the talent and long-term growth potential of the Global Equity team. We onboarded an experienced and recognized leader to assume portfolio management responsibilities of the Non-U.S. Small-Cap Growth strategy, as well as two experienced analysts with whom the portfolio manager previously worked. We expect these investments will result in incremental expense of approximately \$5 million in the fourth quarter of 2018. In future quarters, we expect the incremental expense to be approximately \$1.2 million, net of the investment team revenue share generated by the Non-U.S. Small-Cap Growth strategy. As the Non-U.S. Small-Cap Growth strategy grows, the incremental net expense will decline.

Compensation and Benefits

	For the Three Months Ended September 30,		Period-to-Period	
	2018	2017	\$	%
(unaudited; in millions)				
Salaries, incentive compensation and benefits ⁽¹⁾	\$ 90.0	\$ 86.0	\$ 4.0	5%
Restricted share-based award compensation expense	12.7	12.5	0.2	2%
Total compensation and benefits	\$ 102.7	\$ 98.5	\$ 4.2	4%

⁽¹⁾ Excluding restricted share-based award compensation expense

The increase in salaries, incentive compensation, and benefits was driven primarily by a \$2.4 million increase in incentive compensation paid to our investment and marketing professionals as a result of the increase in revenue.

Restricted share-based award compensation expense increased \$0.2 million. The increase in expense resulting from the 2018 grant was almost entirely offset by the impact of the Company's 2013 equity grants becoming fully amortized during the three months ended September 30, 2018. Restricted share-based award compensation expense is expected to be approximately \$11 million in the December 2018 quarter.

Total salaries, incentive compensation and benefits was 48% of our revenues for the three months ended September 30, 2018, and 2017.

Other operating expenses

Other operating expenses increased \$2.9 million for the three months ended September 30, 2018 compared to the three months ended September 30, 2017 primarily due to increased occupancy and technology expenses. During the three months ended September 2018, we incurred approximately \$1.5 million of incremental occupancy expense related to office relocations of several investment teams. The increased expense includes overlapping rent during the construction of the new facilities, accelerated depreciation expense, and accelerated expense for the remaining lease costs to be incurred for an exited location. Occupancy expense is expected to be approximately \$5 million in the December 2018 quarter.

Non-Operating Income (Expense)

Non-operating income (expense) for the three months ended September 30, 2018 includes \$0.3 million of income related to investment gains of consolidated investment products, compared to \$1.6 million of such income for the three months ended September 30, 2017. Non-operating income (expense) for the three months ended September 30, 2018 also includes \$1.4 million of income related to investment gains on unconsolidated investment products, compared to \$0.1 million for the three months ended September 30, 2017.

Provision for Income Taxes

The provision for income taxes primarily represents APAM's U.S. federal, state and local income taxes on its allocable portion of Holdings' income, as well as foreign income taxes payable by Holdings' subsidiaries. APAM's effective income tax rate for the three months ended September 30, 2018 was 17.5%. The decrease in effective income tax rate from 26.9% for the three months ended September 30, 2017 was primarily due to Tax Reform, which reduced the U.S. federal corporate tax rate from 35% to 21%. The 2018 effective tax rate was also lower than 2017 due to pre-IPO share-based compensation expenses incurred in 2017 that were not deductible for tax purposes. Pre-IPO share-based compensation expenses and the related impact to the effective tax rate no longer exist after the awards were fully vested on July 1, 2017.

Several factors contribute to the effective tax rate, including a rate benefit attributable to the fact that approximately 33% and 38% of Holdings' full year projected taxable earnings were not subject to corporate-level taxes for the three months ended September 30, 2018 and 2017, respectively. Thus, income before income taxes includes amounts that are attributable to noncontrolling interests and not taxable to APAM and its subsidiaries, which reduces the effective tax rate. As APAM's equity ownership in Holdings increases, the effective tax rate will likewise increase as more income will be subject to corporate-level taxes. The effective tax rate was negatively impacted in both periods due to higher tax expense related to the vesting of restricted share-based awards, net of dividends paid on unvested share-based awards.

Earnings Per Share

Weighted average basic and diluted shares of Class A common stock outstanding were higher for the three months ended September 30, 2018, compared to the three months ended September 30, 2017, as a result of the 2018 Follow-On Offering, Holdings Common Unit Exchanges, and equity award grants. See Note 13, "Earnings Per Share" in the Notes to the Unaudited Consolidated Financial Statements for further discussion of earnings per share.

Nine months ended September 30, 2018, Compared to Nine months ended September 30, 2017

	For the Nine Months Ended September 30,		Period-to-Period	
	2018	2017	\$	%
(unaudited; in millions, except share data)				
Statements of operations data:				
Revenues	\$ 637.1	\$ 584.9	\$ 52.2	9 %
Operating Expenses				
Total compensation and benefits	314.7	300.9	13.8	5 %
Other operating expenses	81.7	78.8	2.9	4 %
Total operating expenses	396.4	379.7	16.7	4 %
Total operating income	240.7	205.2	35.5	17 %
Non-operating income (expense)				
Interest expense	(8.5)	(8.7)	0.2	2 %
Other non-operating income	12.3	2.6	9.7	373 %
Total non-operating income (expense)	3.8	(6.1)	9.9	162 %
Income before income taxes	244.5	199.1	45.4	23 %
Provision for income taxes	38.5	49.2	(10.7)	(22)%
Net income before noncontrolling interests	206.0	149.9	56.1	37 %
Less: Noncontrolling interests - Artisan Partners Holdings	73.3	72.2	1.1	2 %
Less: Noncontrolling interests - consolidated investment products	6.9	0.6	6.3	1,050 %
Net income attributable to Artisan Partners Asset Management Inc.	<u>\$ 125.8</u>	<u>\$ 77.1</u>	<u>\$ 48.7</u>	63 %
Share Data				
Basic and diluted earnings per share - Class A common shares	\$ 2.27	\$ 1.48		
Weighted average shares of Class A common stock outstanding	48,607,837	44,068,172		

Revenues

The increase in revenues of \$52.2 million, or 9%, for the nine months ended September 30, 2018, compared to the nine months ended September 30, 2017, was driven primarily by a \$10.1 billion, or 10%, increase in our average assets under management. The weighted average investment management fee was 73.0 basis points for the nine months ended September 30, 2018 compared to 73.3 basis points for the nine months ended September 30, 2017. The fee rate decreased due to the negative impact of the shift in the mix of our assets under management between investment vehicles and lower fee rates earned on certain separate accounts, partially offset by the positive impact of higher performance fees recognized in the current year. Performance fee revenue was \$2.4 million and \$0.3 million for the nine months ended September 30, 2018 and 2017, respectively.

The following table sets forth the weighted average fee (which reflects the additional services we provide to pooled vehicles) and composition of revenue and assets under management by investment vehicle:

For the Nine Months Ended September 30,	Separate Accounts		Artisan Funds and Artisan Global Funds	
	2018	2017	2018	2017
	(unaudited; dollars in millions)			
Investment management fees	\$ 234.8	\$ 214.9	\$ 402.3	\$ 370.0
Weighted average fee	53.9 basis points	54.2 basis points	92.0 basis points	92.1 basis points
Percentage of ending AUM	50%	50%	50%	50%

Operating Expenses

The increase in total operating expenses of \$16.7 million for the nine months ended September 30, 2018, compared to the nine months ended September 30, 2017, was primarily a result of higher incentive compensation expense due to increased revenues, a \$5.1 million increase in equity-based compensation expense related to additional post-IPO equity grants, increases in salary and benefit costs and an increase in occupancy expenses. These increases were partially offset by the completed amortization of pre-offering related equity compensation expense in 2017.

Compensation and Benefits

	For the Nine Months Ended September 30,		Period-to-Period	
	2018	2017	\$	%
	(unaudited; in millions)			
Salaries, incentive compensation and benefits ⁽¹⁾	\$ 273.0	\$ 251.6	\$ 21.4	9 %
Restricted share-based award compensation expense	41.7	36.6	5.1	14 %
Total salaries, incentive compensation and benefits	314.7	288.2	26.5	9 %
Pre-offering related compensation - share-based awards	—	12.7	(12.7)	(100)%
Total compensation and benefits	\$ 314.7	\$ 300.9	\$ 13.8	5 %

⁽¹⁾ Excluding share-based compensation

The increase in salaries, incentive compensation, and benefits was driven primarily by a \$15.7 million increase in incentive compensation paid to our investment and marketing professionals as a result of higher investment management fee revenue. The remaining increase is primarily due to salary increases and costs associated with an increase in the number of employees.

Restricted share-based award compensation expense increased \$5.1 million primarily as a result of restricted share-based awards granted in January 2017 and February 2018.

Pre-offering related compensation expense, which consists of the amortization expense on pre-offering Class B awards decreased \$12.7 million, as the remaining awards became fully vested during 2017. As of July 1, 2017, all Class B awards were fully vested.

Total salaries, incentive compensation and benefits was 49% of our revenues for the nine months ended September 30, 2018, and 2017.

Other operating expenses

Other operating expenses increased \$2.9 million for the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017 primarily due to increased occupancy expense, as described above.

Non-Operating Income (Expense)

Non-operating income (expense) for the nine months ended September 30, 2018 includes \$9.5 million of income related to investment gains of consolidated investment products compared to \$1.6 million of such income for the nine months ended September 30, 2017. Non-operating income (expense) for the nine months ended September 30, 2018 also includes \$2.5 million of income related to investment gains on unconsolidated investment products, compared to \$0.5 million for the nine months ended September 30, 2017.

Provision for Income Taxes

The provision for income taxes primarily represents APAM's U.S. federal, state and local income taxes on its allocable portion of Holdings' income, as well as foreign income taxes payable by Holdings' subsidiaries. APAM's effective income tax rate for the nine months ended September 30, 2018 was 15.7%. The decrease in effective income tax rate from 24.7% for the nine months ended September 30, 2017 was primarily due to Tax Reform, which reduced the U.S. federal corporate tax rate from 35% to 21%. The 2018 effective tax rate was also lower than 2017 due to pre-IPO share-based compensation expenses incurred in 2017 that were not deductible for tax purposes. Pre-IPO share-based compensation expenses and the related impact to the effective tax rate no longer exist after the awards were fully vested on July 1, 2017.

Several factors contribute to the effective tax rate, including a rate benefit attributable to the fact that approximately 33% and 38% of Holdings' full year projected taxable earnings were not subject to corporate-level taxes for the nine months ended September 30, 2018 and 2017, respectively. Thus, income before income taxes includes amounts that are attributable to noncontrolling interests and not taxable to APAM and its subsidiaries, which reduces the effective tax rate. As APAM's equity ownership in Holdings increases, the effective tax rate will likewise increase as more income will be subject to corporate-level taxes. The effective tax rate in both periods was also lower than the statutory rate due to dividends paid on unvested share-based awards.

Earnings Per Share

Weighted average basic and diluted shares of Class A common stock outstanding were higher for the nine months ended September 30, 2018, compared to the nine months ended September 30, 2017, as a result of stock offerings, unit exchanges, and equity award grants. See Note 13, "Earnings Per Share" in the Notes to the Unaudited Consolidated Financial Statements for further discussion of earnings per share.

Supplemental Non-GAAP Financial Information

Our management uses non-GAAP measures (referred to as “adjusted” measures) of net income and operating income to evaluate the profitability and efficiency of the underlying operations of our business and as a factor when considering net income available for distributions and dividends. These adjusted measures remove the impact of (1) pre-offering related compensation, (2) net gain (loss) on the tax receivable agreements (if any), and (3) net investment gain (loss) of investment products. These adjustments also remove the non-operational complexities of our structure by adding back non-controlling interests and assuming all income of Artisan Partners Holdings is allocated to APAM. Management believes these non-GAAP measures provide more meaningful information to analyze our profitability and efficiency between periods and over time. We have included these non-GAAP measures to provide investors with the same financial metrics used by management to manage the company.

Non-GAAP measures should be considered in addition to, and not as a substitute for, financial measures prepared in accordance with GAAP. Our non-GAAP measures may differ from similar measures used by other companies, even if similar terms are used to identify such measures. Our non-GAAP measures are as follows:

- Adjusted net income represents net income excluding the impact of (1) pre-offering related compensation, (2) net gain (loss) on the tax receivable agreements (if any), and (3) net investment gain (loss) of investment products. Adjusted net income also reflects income taxes assuming the vesting of all unvested Class A share-based awards and as if all outstanding limited partnership units of Artisan Partners Holdings had been exchanged for Class A common stock of APAM on a one-for-one basis. Assuming full vesting and exchange, all income of Artisan Partners Holdings is treated as if it were allocated to APAM, and the adjusted provision for income taxes represents an estimate of income tax expense at an effective rate reflecting assumed federal, state, and local income taxes. The estimated adjusted effective tax rate was 23.5% and 37.0% for the 2018 and 2017 periods, respectively.
- Adjusted net income per adjusted share is calculated by dividing adjusted net income by adjusted shares. The number of adjusted shares is derived by assuming the vesting of all unvested Class A share-based awards and the exchange of all outstanding limited partnership units of Artisan Partners Holdings for Class A common stock of APAM on a one-for-one basis.
- Adjusted operating income represents the operating income of the consolidated company excluding pre-offering related compensation.
- Adjusted operating margin is calculated by dividing adjusted operating income by total revenues.
- Adjusted EBITDA represents adjusted net income before interest expense, income taxes, depreciation and amortization expense.

Pre-offering related compensation includes the amortization of unvested Class B common units of Artisan Partners Holdings that were granted before and were unvested at our IPO, which closed on March 12, 2013. As of July 1, 2017, all Class B common units of Artisan Partners Holdings were fully vested and expensed.

Net gain (loss) on the tax receivable agreements represents the income (expense) associated with the change in estimate of amounts payable under the tax receivable agreements entered into in connection with APAM’s initial public offering and related reorganization.

Net investment gain (loss) of investment products represents the non-operating income (loss) related to the Company’s seed investments, in both consolidated investment products and unconsolidated investment products. Excluding these non-operating market gains or losses on seed investments provides greater transparency to evaluate the profitability and efficiency of the underlying operations of the business.

The following table sets forth, for the periods indicated, a reconciliation from GAAP financial measures to non-GAAP measures:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
(unaudited; in millions, except per share data)				
Reconciliation of non-GAAP financial measures:				
Net income attributable to Artisan Partners Asset Management Inc. (GAAP)	\$ 42.5	\$ 30.7	\$ 125.8	\$ 77.1
Add back: Net income attributable to noncontrolling interests - Artisan Partners Holdings	24.0	27.2	73.3	72.2
Add back: Provision for income taxes	14.2	21.5	38.5	49.2
Add back: Pre-offering related compensation - share-based awards	—	—	—	12.7
Add back: Net (gain) loss on the tax receivable agreements	(0.3)	(0.5)	(0.3)	(0.5)
Add back: Net investment (gain) loss of investment products attributable to APAM	(1.0)	(0.9)	(3.8)	(0.9)
Less: Adjusted provision for income taxes	18.6	28.9	54.8	77.6
Adjusted net income (Non-GAAP)	\$ 60.8	\$ 49.1	\$ 178.7	\$ 132.2
Average shares outstanding				
Class A common shares	49.4	45.9	48.6	44.1
Assumed vesting or exchange of:				
Unvested Class A restricted share-based awards	4.8	4.2	4.9	4.2
Artisan Partners Holdings units outstanding (noncontrolling interest)	23.0	25.7	23.5	27.3
Adjusted shares	77.2	75.8	77.0	75.6
Basic and diluted earnings per share (GAAP)				
Adjusted net income per adjusted share (Non-GAAP)	\$ 0.77	\$ 0.61	\$ 2.27	\$ 1.48
Adjusted net income per adjusted share (Non-GAAP)				
Adjusted net income per adjusted share (Non-GAAP)	\$ 0.79	\$ 0.65	\$ 2.32	\$ 1.75
Operating income (GAAP)				
Operating income (GAAP)	\$ 81.8	\$ 80.7	\$ 240.7	\$ 205.2
Add back: Pre-offering related compensation - share-based awards	—	—	—	12.7
Adjusted operating income (Non-GAAP)	\$ 81.8	\$ 80.7	\$ 240.7	\$ 217.9
Operating margin (GAAP)				
Operating margin (GAAP)	38.5%	39.4%	37.8%	35.1%
Adjusted operating margin (Non-GAAP)	38.5%	39.4%	37.8%	37.2%
Net income attributable to Artisan Partners Asset Management Inc. (GAAP)				
Net income attributable to Artisan Partners Asset Management Inc. (GAAP)	\$ 42.5	\$ 30.7	\$ 125.8	\$ 77.1
Add back: Net income attributable to noncontrolling interests - Artisan Partners Holdings	24.0	27.2	73.3	72.2
Add back: Pre-offering related compensation - share-based awards	—	—	—	12.7
Add back: Net (gain) loss on the tax receivable agreements	(0.3)	(0.5)	(0.3)	(0.5)
Add back: Net investment (gain) loss of investment products attributable to APAM	(1.0)	(0.9)	(3.8)	(0.9)
Add back: Interest expense	2.9	2.9	8.5	8.7
Add back: Provision for income taxes	14.2	21.5	38.5	49.2
Add back: Depreciation and amortization	1.8	1.3	4.3	3.8
Adjusted EBITDA (Non-GAAP)	\$ 84.1	\$ 82.2	\$ 246.3	\$ 222.3

Liquidity and Capital Resources

Our working capital needs, including accrued incentive compensation payments, have been and are expected to be met primarily through cash generated by our operations. The assets and liabilities of consolidated investment products attributable to third-party investors do not impact our liquidity and capital resources. We have no right to the benefits from, nor do we bear the risks associated with, the assets and liabilities of consolidated investment products, beyond our direct equity investment and any investment management fees and incentive allocations earned. Accordingly, assets and liabilities of consolidated investment products attributable to third party investors are excluded from the amounts and discussions below. The following table shows our liquidity position as of September 30, 2018, and December 31, 2017:

	September 30, 2018		December 31, 2017	
	(unaudited; in millions)			
Cash and cash equivalents	\$	211.4	\$	137.3
Accounts receivable	\$	76.8	\$	76.7
Seed investments ⁽¹⁾	\$	49.2	\$	40.3
Undrawn commitment on revolving credit facility	\$	100.0	\$	100.0

⁽¹⁾ Seed investments includes investment securities in unconsolidated sponsored investment entities, as well as Artisan's direct equity investments in consolidated investment products.

We manage our cash balances in order to fund our day-to-day operations. Accounts receivable primarily represent investment management fees that have been earned, but not yet received from our clients. We perform a review of our receivables on a monthly basis to assess collectability. As of September 30, 2018, none of our receivables were considered uncollectable.

In August 2012, we issued \$200.0 million in unsecured notes and entered into a \$100.0 million five-year revolving credit facility. The notes were comprised of three series, Series A, Series B, and Series C, each with a balloon payment at maturity. The fixed interest rate on each series of unsecured notes is subject to a 100 basis point increase in the event Holdings receives a below-investment grade rating and any such increase will continue to apply until an investment grade rating is received.

In August 2017, we issued \$60 million of Series D notes and used the proceeds to repay the \$60 million Series A notes that matured on August 16, 2017. We also amended and extended the \$100 million revolving credit facility for an additional five-year period. The \$100.0 million revolving credit facility was unused as of and for the nine months ended September 30, 2018.

These borrowings contain various restrictive covenants. Our failure to comply with any of the covenants could result in an event of default under the agreements, giving our lenders the ability to accelerate repayment of our obligations. We were in compliance with all debt covenants as of September 30, 2018.

Distributions and Dividends

Artisan Partners Holdings' distributions, including distributions to APAM for the three and nine months ended September 30, 2018 and 2017, were as follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
	(unaudited, in millions)			
Holdings Partnership Distributions to Limited Partners	\$ 22.6	\$ 27.1	\$ 78.4	\$ 81.9
Holdings Partnership Distributions to APAM	\$ 49.9	\$ 50.1	\$ 162.8	\$ 133.6
Total Holdings Partnership Distributions	\$ 72.5	\$ 77.2	\$ 241.2	\$ 215.5

On October 25, 2018, we, acting as the general partner of Artisan Partners Holdings, declared a distribution of \$23.4 million, payable by Artisan Partners Holdings to holders of its partnership units, including us.

APAM declared and paid the following dividends per share during the three and nine months ended September 30, 2018 and 2017:

Type of Dividend	Class of Stock	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
		2018	2017	2018	2017
Quarterly	Class A Common	\$ 0.60	\$ 0.60	\$ 1.80	\$ 1.80
Special Annual	Class A Common	\$ —	\$ —	\$ 0.79	\$ 0.36

On October 25, 2018, our board declared a quarterly dividend of \$0.60 per share of Class A common stock payable on November 30, 2018 to shareholders of record as of November 16, 2018.

Subject to board approval each quarter, we currently expect to pay a quarterly dividend during 2018. After the end of the year, our board will consider paying a special dividend that will take into consideration our annual adjusted earnings, business conditions and the amount of cash we want to retain at that time. Although we expect to pay dividends according to our dividend policy, we may not pay dividends according to our policy or at all. In the first quarter of 2019, we plan to begin a variable quarterly dividend which will be approximately 80% of the cash generated in the prior quarter. We expect cash generation will approximately equal adjusted net income plus equity-based compensation expense and other non-cash items.

Tax Receivable Agreements (“TRAs”)

In addition to funding our normal operations, we will be required to fund amounts payable under the TRAs that we entered into in connection with the IPO, which resulted in the recognition of a \$369.0 million liability as of September 30, 2018. The liability generally represents 85% of the tax benefits APAM expects to realize as a result of the merger of an entity into APAM as part of the IPO Reorganization, our purchase of partnership units from limited partners of Holdings and the exchange of partnership units (for shares of Class A common stock or other consideration). The estimated liability assumes no material changes in the relevant tax law and that APAM earns sufficient taxable income to realize all tax benefits subject to the TRAs. An increase or decrease in future tax rates will increase or decrease, respectively, the expected tax benefits APAM would realize and the amounts payable under the TRAs. Changes in the estimate of expected tax benefits APAM would realize and the amounts payable under the TRAs as a result of change in tax rates would be recorded in net income.

The liability will increase upon future purchases or exchanges of limited partnership units with the increase representing amounts payable under the TRAs equal to 85% of the estimated future tax benefits, if any, resulting from such purchases or exchanges. We intend to fund the payment of amounts due under the TRAs out of the reduced tax payments that APAM realizes in respect of the tax attributes to which the TRAs relate.

The actual increase in tax basis, as well as the amount and timing of any payments under these agreements, will vary depending upon a number of factors, including the timing of sales or exchanges by the holders of limited partnership units, the price of the Class A common stock at the time of such sales or exchanges, whether such sales or exchanges are taxable, the amount and timing of the taxable income APAM generates in the future and the tax rate then applicable and the portion of APAM’s payments under the TRAs constituting imputed interest or depreciable basis or amortizable basis. In certain cases, payments under the TRAs may be accelerated and/or significantly exceed the actual benefits we realize in respect of the tax attributes subject to the TRAs. In such cases, we intend to fund those payments with cash on hand, although we may have to borrow funds depending on the amount and timing of the payments. During the nine months ended September 30, 2018, we made payments of \$36.1 million related to the TRAs. We do not intend to make any additional TRA payments in 2018. In 2019, we expect to make payments of approximately \$25 million related to the TRAs. The decrease in projected 2019 TRA payments compared to 2018 is primarily due to the decrease in the U.S. federal corporate tax rate as a result of Tax Reform.

Cash Flows

	For the Nine Months Ended September 30,	
	2018	2017
	(unaudited; in millions)	
Cash, cash equivalents and restricted cash as of January 1	\$ 159.8	\$ 157.4
Net cash provided by operating activities	328.2	268.7
Net cash used in investing activities	(9.1)	(3.2)
Net cash used in financing activities	(211.5)	(200.5)
Net impact of deconsolidation of consolidated investment products	(39.8)	—
Cash, cash equivalents and restricted cash as of September 30	\$ 227.6	\$ 222.4

Net cash provided by operating activities increased \$59.5 million for the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017, primarily due to increased revenues and operating income resulting from an increase in average assets under management. For the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017, our operating income, excluding share-based and pre-offering related compensation expenses, increased \$27.9 million. Timing differences in working capital accounts also caused operating cash flows to increase by \$26.1 million between the comparative periods, primarily due to the timing of executive bonus payments.

Investing activities consist primarily of acquiring and selling property and equipment, leasehold improvements and the purchase and sale of available-for-sale securities. Net cash used in investment activities increased \$5.9 million for the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017, due to a \$4.5 million increase in the acquisition of property and equipment and leasehold improvements related to the relocation of several investment teams during 2018.

Financing activities consist primarily of partnership distributions to non-controlling interests, dividend payments to holders of our Class A common stock, proceeds from the issuance of Class A common stock in follow-on offerings, payments to purchase Holdings partnership units, and payments of amounts owed under the tax receivable agreements. Net cash used by financing activities increased \$11.0 million for the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017, primarily due to a \$34.5 million increase in dividends paid to holders of our Class A common stock, and a \$5.9 million increase in payments of amounts owed under the TRAs, partially offset by a \$26.2 million increase in contributions from non-controlling interests in our consolidated investment products, and a \$3.5 million decrease in distributions to limited partners.

During the nine months ended September 30, 2018, the Company determined that it no longer has a controlling financial interest in an investment product that was previously consolidated. The deconsolidation of the investment product resulted in a \$39.8 million decrease in cash and cash equivalents.

Certain Contractual Obligations

As of September 30, 2018, there have been no material changes to our contractual obligations outside the ordinary course of business from those listed in the “Certain Contractual Obligations” table and related notes to the table in our Annual Report on Form 10-K for the year ended December 31, 2017, filed with the SEC on February 21, 2018, except for the changes in the TRA liability during the year.

As previously discussed in this report, the TRA liability decreased from \$385.4 million at December 31, 2017 to \$369.0 million at September 30, 2018 as a result of current year TRA payments. Amounts payable under the TRAs will increase upon exchanges of Holdings units for our Class A common stock or sales of Holdings units to us, with the increase representing 85% of the estimated future tax benefits, if any, resulting from such exchanges or sales and decrease when payments are made. The actual amount and timing of payments associated with our existing payable under the TRAs or future exchanges or sales, and associated tax benefits, will vary depending upon a number of factors as described under “Liquidity and Capital Resources.” As a result, the timing of payments by period is currently unknown. During the nine months ended September 30, 2018, we made payments of \$36.1 million related to the TRAs. We do not intend to make any additional TRA payments in 2018.

Off-Balance Sheet Arrangements

As of September 30, 2018, we did not have any off-balance sheet arrangements that have, or are reasonably likely to have, a material current or future effect on our financial condition, results of operations, liquidity or capital resources.

Critical Accounting Policies and Estimates

There have been no updates to our critical accounting policies from those disclosed in Management’s Discussion and Analysis of Financial Condition and Results of Operations in our Form 10-K for the year ended December 31, 2017, except for the impact of adopting the new revenue recognition standard.

Revenue Recognition

Investment management fees are generally computed as a percentage of assets under management and are recognized as revenue at the end of each distinct service period. Fees for providing investment management services are computed and billed in accordance with the underlying investment management agreements, which is generally on a monthly or quarterly basis. Investment management fees are presented net of cash rebates and fees waived pursuant to contractual expense limitations of the funds or voluntary waivers.

A number of investment management agreements provide for performance-based fees or incentive allocations, collectively “performance fees”. Performance fees, if earned, are recognized upon completion of the contractually determined measurement period, which is generally quarterly or annually. Performance fees generally are not subject to claw back as a result of performance declines subsequent to the most recent measurement date.

Artisan accounts for asset management services as a single performance obligation that is satisfied over time, using a time-based measure of progress to recognize revenue. Customer consideration is variable due to the uncertainty of the value of assets under management during each distinct service period. At the end of each quarter, Artisan records revenue for the actual amount of investment management fees for that quarter because the uncertainty has been resolved.

Performance fees are subject to the uncertainty of market volatility, and as a result, the entire amount of the variable consideration related to performance fees is constrained until the end of each measurement period. At the end of the quarterly or annual measurement period, revenue is recorded for the actual amount of performance fees earned during that period because the uncertainty has been resolved.

The investment management fees that we receive are calculated based on the values of the securities held in the accounts that we manage for our clients. For our U.S.-registered mutual fund and UCITS clients, including Artisan Funds and Artisan Global Funds, and for our own sponsored private funds, our fees are based on the values of the funds' assets as determined for purposes of calculating their net asset values. Securities held by Artisan Funds and Artisan Global Funds are generally valued at closing market prices, or if closing market prices are not readily available or are not considered reliable, at a fair value determined under procedures established by the fund's board (fair value pricing). Values of securities determined using fair value pricing are likely to be different than they would be if only closing market prices were used.

For separate account clients, our fees may be based, at the client's option, on the values of the securities in the portfolios we manage as determined by the client (or its custodian or other service provider) or by us in accordance with valuation procedures we have adopted. The valuation procedures we have adopted generally use closing market prices in the markets in which the securities trade, without adjustment for subsequent events except in unusual circumstances. We believe that our fees based on valuations determined under our procedures are not materially different from the fees we receive that are based on valuations determined by clients, their custodians or other service providers.

With the exception of the assets managed by our Credit team (which represented approximately 2.8% of our assets under management at September 30, 2018), the portfolios of Artisan Funds and Artisan Global Funds, as well as the portfolios we manage for our separate account clients, are invested principally in publicly-traded equity securities for which public market values are readily available, with a portion of each portfolio held in cash or cash-like instruments.

New or Revised Accounting Standards

See Part I, Item 1, Unaudited Consolidated Financial Statements - Note 2, "Summary of Significant Accounting Policies."

Item 3. Qualitative and Quantitative Disclosures Regarding Market Risk

There have been no material changes in our Quantitative and Qualitative Disclosures Regarding Market Risk from those previously reported in our Form 10-K for the year ended December 31, 2017.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

We maintain disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act, that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our principal executive and principal financial officers, as appropriate, to allow for timely decisions regarding required disclosure.

Our management, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) at September 30, 2018. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are effective.

Changes in Internal Control over Financial Reporting

There have been no changes in internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended September 30, 2018, that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

Part II — Other Information**Item 1. Legal Proceedings**

In the normal course of business, we may be subject to various legal and administrative proceedings. Currently, there are no legal or administrative proceedings that management believes may have a material effect on our consolidated financial position, cash flows or results of operations.

Item 1A. Risk Factors

For a discussion of our potential risks and uncertainties, see the information under the heading “Risk Factors” in our latest annual report on Form 10-K, which is accessible on the SEC’s website at www.sec.gov.

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

As described in Note 8, “Stockholders’ Equity”, to the Unaudited Consolidated Financial Statements included in Part I of this report, upon termination of employment with Artisan, an employee-partner’s Class B common units are exchanged for Class E common units and the corresponding shares of APAM Class B common stock are canceled. APAM issues the former employee-partner a number of shares of APAM Class C common stock equal to the former employee-partner’s number of Class E common units. Class E common units are exchangeable for Class A common stock subject to the same restrictions and limitations on exchange applicable to the other common units of Holdings. There were no such issuances during the three months ended September 30, 2018.

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

Not applicable

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit No.	Description
31.1	Certification of the Company’s Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of the Company’s Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of the Company’s Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of the Company’s Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	The following Extensible Business Reporting Language (XBRL) documents are collectively included herewith as Exhibit 101: (i) the Unaudited Condensed Consolidated Statements of Financial Condition as of September 30, 2018 and December 31, 2017; (ii) the Unaudited Consolidated Statements of Operations for the three and nine months ended September 30, 2018 and 2017; (iii) the Unaudited Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2018 and 2017; (iv) the Unaudited Consolidated Statements of Changes in Stockholders’ Equity for the nine months ended September 30, 2018 and 2017; (v) the Unaudited Consolidated Statements of Cash Flows for the nine months ended September 30, 2018 and 2017 (vi) the Notes to Unaudited Consolidated Financial Statements as of and for the three and nine months ended September 30, 2018 and 2017.

SIGNATURES

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

Artisan Partners Asset Management Inc.

Dated: October 31, 2018

By:

/s/ Eric R. Colson

Eric R. Colson
President, Chief Executive Officer and Chairman of the Board
(principal executive officer)

/s/ Charles J. Daley, Jr.

Charles J. Daley, Jr.
Executive Vice President, Chief Financial Officer and Treasurer
(principal financial and accounting officer)

CERTIFICATION

I, Eric R. Colson, certify that:

1. I have reviewed this report on Form 10-Q of Artisan Partners Asset Management Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Eric R. Colson

Eric R. Colson
 President, Chief Executive Officer and Chairman of the
 Board
 (principal executive officer)

Date: October 31, 2018

CERTIFICATION

I, Charles J. Daley, Jr., certify that:

1. I have reviewed this report on Form 10-Q of Artisan Partners Asset Management Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Charles J. Daley, Jr.

Charles J. Daley, Jr.
Executive Vice President, Chief Financial Officer and Treasurer
(principal financial and accounting officer)

Date: October 31, 2018

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Eric R. Colson, the President, Chief Executive Officer and Chairman of the Board of Artisan Partners Asset Management Inc. (the “Company”), hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- The Quarterly Report on Form 10-Q of the Company for the period ended September 30, 2018 as filed with the Securities and Exchange Commission on the date hereof (the “Form 10-Q”), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Eric R. Colson

Eric R. Colson
President, Chief Executive Officer and Chairman of the
Board
(principal executive officer)

Date: October 31, 2018

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Charles J. Daley, Jr., the Executive Vice President, Chief Financial Officer and Treasurer of Artisan Partners Asset Management Inc. (the “Company”), hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- The Quarterly Report on Form 10-Q of the Company for the period ended September 30, 2018 as filed with the Securities and Exchange Commission on the date hereof (the “Form 10-Q”), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Charles J. Daley, Jr.

Charles J. Daley, Jr.
Executive Vice President, Chief Financial Officer and Treasurer
(principal financial and accounting officer)

Date: October 31, 2018