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 MARCH 31, 2019

OR

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

FOR THE TRANSITION PERIOD FROM TO

Commission file number: 001-35826

Artisan Partners Asset Management Inc.

(Exact name of registrant as specified in its charter)

Delaware	**45-0969585**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
875 E. Wisconsin Avenue, Suite 800 Milwaukee, WI	**53202**
(Address of principal executive offices)	*(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 o

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 o

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 ☑	Accelerated filer o
Non-accelerated filer o	Smaller reporting company o
	Emerging growth company o

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

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

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 April 26, 2019 were 56,076,459, 7,974,456 and 13,763,806, 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. 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, 2018, filed with the SEC on February 20, 2019, 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 the performance of our investment strategies
- 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)

	March 31, 2019	December 31, 2018
ASSETS		
Cash and cash equivalents	$ 152,217	$ 160,463
Accounts receivable	79,256	67,691
Investment securities	20,671	18,109
Property and equipment, net	32,531	29,138
Deferred tax assets	428,704	429,128
Restricted cash	629	629
Prepaid expenses and other assets	12,898	13,674
Operating lease assets	95,911	—
Assets of consolidated investment products		
Cash and cash equivalents	2,152	14,443
Accounts receivable and other	3,547	5,566
Investment assets, at fair value	77,994	66,173
Total assets	$ 906,510	$ 805,014
LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS, AND STOCKHOLDERS' EQUITY		
Accounts payable, accrued expenses, and other	$ 17,511	$ 27,221
Accrued incentive compensation	61,323	12,689
Borrowings	199,338	199,296
Operating lease liabilities	107,487	—
Amounts payable under tax receivable agreements	374,744	369,355
Liabilities of consolidated investment products		
Accounts payable, accrued expenses, and other	8,130	4,712
Investment liabilities, at fair value	8,480	16,905
Total liabilities	777,013	630,178
Commitments and contingencies		
Redeemable noncontrolling interests	36,547	34,349
Common stock		
Class A common stock ($0.01 par value per share, 500,000,000 shares authorized, 55,626,061 and 54,071,188 shares outstanding at March 31, 2019 and December 31, 2018, respectively)	556	541
Class B common stock ($0.01 par value per share, 200,000,000 shares authorized, 7,974,456 and 8,645,249 shares outstanding at March 31, 2019 and December 31, 2018, respectively)	80	86
Class C common stock ($0.01 par value per share, 400,000,000 shares authorized, 14,216,435 and 14,226,435 shares outstanding at March 31, 2019 and December 31, 2018, respectively)	142	142
Additional paid-in capital	69,471	97,553
Retained earnings (deficit)	21,191	38,617
Accumulated other comprehensive income (loss)	(1,658)	(1,895)
Total Artisan Partners Asset Management Inc. stockholders' equity	89,782	135,044
Noncontrolling interest - Artisan Partners Holdings	3,168	5,443
Total stockholders' equity	92,950	140,487
Total liabilities, redeemable noncontrolling interests, and stockholders' equity	$ 906,510	$ 805,014

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 March 31,	
	2019	**2018**
Revenues		
Management fees	$ 186,864	$ 211,966
Performance fees	98	42
Total revenues	$ 186,962	$ 212,008
Operating Expenses		
Compensation and benefits	99,282	105,224
Distribution, servicing and marketing	5,403	7,009
Occupancy	7,567	3,925
Communication and technology	9,428	8,660
General and administrative	7,550	7,204
Total operating expenses	129,230	132,022
Total operating income	57,732	79,986
Non-operating income (expense)		
Interest expense	(2,775)	(2,776)
Net investment gain (loss) of consolidated investment products	2,346	6,285
Net investment income	1,957	454
Total non-operating income (expense)	1,528	3,963
Income before income taxes	59,260	83,949
Provision for income taxes	9,442	12,285
Net income before noncontrolling interests	49,818	71,664
Less: Net income attributable to noncontrolling interests - Artisan Partners Holdings	17,309	26,052
Less: Net income attributable to noncontrolling interests - consolidated investment products	970	4,338
Net income attributable to Artisan Partners Asset Management Inc.	$ 31,539	$ 41,274
Basic and diluted earnings per share	$ 0.47	$ 0.75
Basic and diluted weighted average number of common shares outstanding	50,145,684	47,360,438
Dividends declared per Class A common share	$ 1.59	$ 1.39

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 March 31,	
	2019	**2018**
Net income before noncontrolling interests	$ 49,818	$ 71,664
Other comprehensive income (loss), net of tax		
Foreign currency translation gain (loss)	378	632
Total other comprehensive income (loss)	378	632
Comprehensive income	50,196	72,296
Comprehensive income attributable to noncontrolling interests - Artisan Partners Holdings	17,449	26,291
Comprehensive income attributable to noncontrolling interests - consolidated investment products	970	4,338
Comprehensive income attributable to Artisan Partners Asset Management Inc.	$ 31,777	$ 41,667

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, 2019	$ 541	$ 86	$ 142	$ 97,553	$ 38,617	$ (1,895)	$ 5,443	$ 140,487	$ 34,349
Net income	—	—	—	—	31,539	—	17,309	48,848	970
Other comprehensive income - foreign currency translation	—	—	—	—	—	262	116	378	—
Cumulative impact of changes in ownership of Artisan Partners Holdings LP, net of tax	—	—	—	(91)	—	(25)	116	—	—
Amortization of equity-based compensation	—	—	—	8,990	—	—	3,359	12,349	—
Deferred tax assets, net of amounts payable under tax receivable agreements	—	—	—	1,679	—	—	—	1,679	—
Issuance of Class A common stock, net of issuance costs	—	—	—	(10)	—	—	—	(10)	—
Forfeitures and employee/partner terminations	—	—	—	—	—	—	—	—	—
Issuance of restricted stock awards	10	—	—	(10)	—	—	—	—	—
Employee net share settlement	(1)	—	—	(1,287)	—	—	(536)	(1,824)	—
Exchange of subsidiary equity	6	(6)	—	—	—	—	—	—	—
Capital contributions, net	—	—	—	—	—	—	—	—	1,228
Distributions	—	—	—	—	—	—	(22,591)	(22,591)	—
Dividends	—	—	—	(37,353)	(48,965)	—	(48)	(86,366)	—
Balance at March 31, 2019	$ 556	$ 80	$ 142	$ 69,471	$ 21,191	$ (1,658)	$ 3,168	$ 92,950	$ 36,547

	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	—	—	—	—	41,274	—	26,052	67,326	4,338
Other comprehensive income - foreign currency translation	—	—	—	—	—	429	203	632	—
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	—		—	(383)	—	(35)	418	—	—
Amortization of equity-based compensation	—		—	10,043	—	—	4,357	14,400	—
Deferred tax assets, net of amounts payable under tax receivable agreements	—		—	3,271	—	—	—	3,271	—
Issuance of Class A common stock, net of issuance costs	6		—	21,293	—	—	—	21,299	—
Forfeitures and employee/partner terminations	—	(11)	11	—	—	—	—	—	—
Issuance of restricted stock awards	15		—	(15)	—	—	—	—	—
Employee net share settlement	(1)		—	(1,210)	—	—	(594)	(1,805)	—
Exchange of subsidiary equity	10	(5)	(5)	—	—	—	—	—	—
Purchase of equity and subsidiary equity	—	(6)	—	(21,472)	—	—	—	(21,478)	—
Capital Contributions, net	—	—	—	—	—	—	—	—	14,733
Distributions	—		—	—	—	—	(22,683)	(22,683)	—
Dividends	—		—	(70,436)	278	—	(47)	(70,205)	—
Balance at March 31, 2018	$ 535	$ 97	$ 138	$ 89,001	$ 4,040	$ (739)	$ 5,848	$ 98,920	$ 81,652

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 Three Months Ended March 31,	
	2019	**2018**
Cash flows from operating activities		
Net income before noncontrolling interests	$ 49,818	$ 71,664
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,471	1,265
Deferred income taxes	7,493	7,252
Asset impairment	2,003	—
Noncash lease expense	745	(25)
Net (gain) loss on seed investment securities	(1,615)	(321)
Loss on disposal of property and equipment	17	5
Amortization of debt issuance costs	114	114
Share-based compensation	12,349	14,400
Net investment (gain) loss of consolidated investment products	(2,346)	(6,285)
Purchase of investments by consolidated investment products	(36,758)	(332,365)
Proceeds from sale of investments by consolidated investment products	16,871	339,686
Change in assets and liabilities resulting in an increase (decrease) in cash:		
Accounts receivable	(11,566)	1,935
Prepaid expenses and other assets	(862)	1,643
Accounts payable and accrued expenses	48,695	67,318
Net change in operating assets and liabilities of consolidated investment products	7,425	1,038
Net cash provided by operating activities	93,854	167,324
Cash flows from investing activities		
Acquisition of property and equipment	(1,284)	(301)
Leasehold improvements	(3,554)	(528)
Net cash used in investing activities	(4,838)	(829)
Cash flows from financing activities		
Partnership distributions	(22,591)	(22,683)
Dividends paid	(86,366)	(70,205)
Net proceeds from issuance of common stock	—	21,478
Payment of costs directly associated with the issuance of Class A common stock	—	(88)
Purchase of equity and subsidiary equity	—	(21,478)
Taxes paid related to employee net share settlement	(1,824)	(1,805)
Capital contributions to consolidated investment products, net	1,228	14,733
Net cash used in financing activities	(109,553)	(80,048)
Net increase (decrease) in cash and cash equivalents	(20,537)	86,447
Cash, cash equivalents and restricted cash		
Beginning of period	175,535	159,796
End of period	**$ 154,998**	**$ 246,243**
Cash, cash equivalents and restricted cash as of the end of the period		
Cash and cash equivalents	$ 152,217	$ 200,831
Restricted cash	629	629
Cash and cash equivalents of consolidated investment products	2,152	44,783
Cash, cash equivalents and restricted cash	**$ 154,998**	**$ 246,243**
Supplementary information		
Noncash activity:		
Establishment of deferred tax assets	$ 7,069	$ 18,325
Establishment of amounts payable under tax receivable agreements	5,389	15,054
Operating lease assets obtained in exchange for operating lease liabilities	2,191	—

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 share and per share 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 March 31, 2019, APAM held approximately 71% 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 traditional separate accounts and pooled investment vehicles, including Artisan Partners Funds, Inc. (“Artisan Funds”), Artisan Partners Global Funds plc (“Artisan Global Funds”), and Artisan sponsored private funds (“Artisan Private 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.

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 Artisan 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 Private 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 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 Unaudited Consolidated Financial Statements. As of March 31, 2019, Artisan had a controlling financial interest in three sub-funds of Artisan Global Funds and one Artisan Private Fund and, as a result, these funds are included in Artisan's Unaudited 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 the 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, 2019

In February 2016, the FASB issued ASU 2016-02, *Leases,* which introduces a lessee model that brings most leases on the balance sheet. The Company adopted the new standard on January 1, 2019, using the modified retrospective transition method that does not adjust comparative periods. The adoption had no impact on previously reported results, and did not result in a cumulative-effect adjustment to the opening balance of retained earnings. In accordance with the adoption of the new lease standard, the Company recorded operating lease assets of $95.9 million and operating lease liabilities of $107.5 million as of March 31, 2019. The adoption of ASU 2016-02 had no impact on the Unaudited Consolidated Statements of Operations for the three months ended March 31, 2019, and did not impact operating, financing or investing cash flows in the Unaudited Consolidated Statements of Cash Flows for the three months ended March 31, 2019.

Artisan elected to adopt the short-term lease exemption, which allows companies to exclude contracts that have an initial term of 12 months or less. Artisan also elected the package of practical expedients available for existing contracts which allowed the Company to carry forward historical assessments of (1) whether contracts are or contain leases, (2) lease classification, and (3) initial direct costs. Additionally, Artisan elected the practical expedient to account for lease and non-lease components as a single component. See Note 15, "Leases" for additional information.

Accounting standards not yet adopted

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 arrangements 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 the consolidated financial statements, but expects certain types of costs will be capitalized that would have previously been expensed as incurred.

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".

	As of March 31, 2019	As of December 31, 2018
Investments in equity securities	$ 6,693	$ 5,857
Investments in equity securities accounted for under the equity method	13,978	12,252
Total investment securities	**$ 20,671**	**$ 18,109**

Artisan's investments in equity securities consist of investments in shares of Artisan Funds, Artisan Global Funds and Artisan Private Funds. The table below presents the net investment income activity related to the investment securities:

	For the Three Months Ended March 31,	
	2019	2018
Net gains (losses) recognized on investment securities	$ 1,615	$ 321
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	$ 1,615	$ 321

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 March 31, 2019 and December 31, 2018:

	Assets and Liabilities at Fair Value				
	Total	NAV Practical Expedient (No Fair Value Level)	Level 1	Level 2	Level 3
March 31, 2019					
Assets					
Money market funds	$ 40,108	$ —	$ 40,108	$ —	$ —
Equity securities	20,671	12,898	7,773	—	—
December 31, 2018					
Assets					
Money market funds	$ 57,790	$ —	$ 57,790	$ —	$ —
Equity securities	18,109	12,252	5,857	—	—

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 the Company's investment in one of the Artisan Private Funds, which is measured at the underlying fund's 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 March 31, 2019 and December 31, 2018:

	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 $202.6 million as of March 31, 2019. 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 March 31, 2019 and 2018.

As of March 31, 2019, the aggregate maturities of debt obligations, based on their contractual terms, are as follows:

2019	$ 50,000
2020	—
2021	—
2022	90,000
2023	—
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 March 31, 2019, Artisan is considered to have a controlling financial interest in three sub-funds of Artisan Global Funds and one Artisan Private Fund. As of March 31, 2019, the aggregate amount of Artisan's direct equity investment in the consolidated investment products was $30.5 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 16, "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 Condensed 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 Statements of Operations.

During the three months ended March 31, 2019, the Company determined that it no longer had a controlling financial interest in one sub-fund of Artisan Global Funds as a result of third party capital contributions. Upon loss of control, the VIE was deconsolidated and the related assets, liabilities, and equity of the fund were derecognized from the Company's Unaudited Condensed Consolidated Statements of Financial Condition. There was no net impact to the Unaudited Consolidated Statements of Operations for the three months ended March 31, 2019. 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 $0.9 million direct equity investment was reclassified from investment assets of consolidated investment products to investment securities.

As of March 31, 2019, Artisan held direct equity investments of $14.0 million in VIEs for which Artisan is not the primary beneficiary. These direct equity investments consisted of seed investments in one sub-fund of Artisan Global Funds and one Artisan Private Fund, both which are accounted for under the equity method of accounting because Artisan has significant influence over the funds.

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 March 31, 2019 and December 31, 2018:

	Assets and Liabilities at Fair Value			
	Total	Level 1	Level 2	Level 3
March 31, 2019				
Assets				
Money market funds	$ 1,102	$ 1,102	$ —	$ —
Equity securities - long position	6,881	6,881	—	—
Fixed income instruments - long position	70,448	—	70,448	—
Derivative assets	665	—	665	—
Liabilities				
Equity securities - short position	$ —	$ —	$ —	$ —
Fixed income instruments - short position	8,285	—	8,285	—
Derivative liabilities	195	43	152	—

	Assets and Liabilities at Fair Value			
	Total	Level 1	Level 2	Level 3
December 31, 2018				
Assets				
Money market funds	$ 13,141	$ 13,141	$ —	$ —
Equity securities - long position	7,817	7,196	—	621
Fixed income instruments - long position	57,621	—	57,621	—
Derivative assets	735	—	735	—
Liabilities				
Equity securities - short position	$ —	$ —	$ —	$ —
Fixed income instruments - short position	16,567	—	16,567	—
Derivative liabilities	338	—	338	—

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

	As of March 31, 2019	As of December 31, 2018
Net CIP assets included in the table above	$ 70,616	$ 62,409
Net CIP assets/(liabilities) not included in the table above	(3,533)	2,156
Total Net CIP assets	67,083	64,565
Less: redeemable noncontrolling interest	36,547	34,349
Artisan's direct equity investment in CIPs	$ 30,536	$ 30,216

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 March 31, 2019, APAM held approximately 71% 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 three months ended March 31, 2019, 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, 2018	**54,071,188**	**22,871,684**	**76,942,872**	**70%**
Holdings Common Unit Exchanges[1]	680,793	(680,793)	—	—%
Issuance of APAM Restricted Shares	959,000	—	959,000	1%
Restricted Share Award Net Share Settlement [1]	(74,006)	—	(74,006)	—%
Forfeitures of Holdings GP Units from Employee Terminations [1]	(10,914)	—	(10,914)	—%
Balance at March 31, 2019	**55,626,061**	**22,190,891**	**77,816,952**	**71%**

[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:

	For the Three Months Ended March 31,	
Statement of Financial Condition	**2019**	**2018**
Additional paid-in capital	$ (91)	$ (383)
Noncontrolling interest - Artisan Partners Holdings	116	418
Accumulated other comprehensive income (loss)	(25)	(35)
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 three months ended March 31, 2019 and $0.6 million for the three months ended March 31, 2018.

Note 8. Stockholders' Equity

APAM - Stockholders' Equity

APAM had the following authorized and outstanding equity as of March 31, 2019 and December 31, 2018, respectively:

		Outstanding			
	Authorized	**As of March 31, 2019**	**As of December 31, 2018**	**Voting Rights [(1)]**	**Economic Rights**
Common shares					
Class A, par value $0.01 per share	500,000,000	55,626,061	54,071,188	1 vote per share	Proportionate
Class B, par value $0.01 per share	200,000,000	7,974,456	8,645,249	1 vote per share	None
Class C, par value $0.01 per share	400,000,000	14,216,435	14,226,435	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 March 31, 2019, Artisan's employees held 5,046,263 restricted shares of Class A common stock and all 7,974,456 outstanding shares of Class B common stock, all of which were subject to the agreement.

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 months ended March 31, 2019 and 2018:

Type of Dividend	**Class of Stock**	**For the Three Months Ended March 31,**	
		2019	**2018**
Quarterly	Class A Common	$ 0.56	$ 0.60
Special Annual	Class A Common	$ 1.03	$ 0.79

The following table summarizes APAM's stock transactions for the three months ended March 31, 2019:

	Total Stock Outstanding	**Class A Common Stock[(1)]**	**Class B Common Stock**	**Class C Common Stock**
Balance at December 31, 2018	**76,942,872**	**54,071,188**	**8,645,249**	**14,226,435**
Holdings Common Unit Exchanges	—	680,793	(670,793)	(10,000)
Restricted Share Award Grants	959,000	959,000	—	—
Restricted Share Award Net Share Settlement	(74,006)	(74,006)	—	—
Employee-Partner Terminations	(10,914)	(10,914)	—	—
Balance at March 31, 2019	**77,816,952**	**55,626,061**	**7,974,456**	**14,216,435**

(1) There were 297,891 and 246,581 restricted stock units outstanding at March 31, 2019 and December 31, 2018, 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 months ended March 31, 2019 and 2018, were as follows:

	For the Three Months Ended March 31,	
	2019	2018
Holdings Partnership Distributions to Limited Partners	$ 22,591	$ 22,683
Holdings Partnership Distributions to APAM	53,401	45,593
Total Holdings Partnership Distributions	**$ 75,992**	**$ 68,276**

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

Disaggregated Revenue

The following table presents a disaggregation of revenue by type and vehicle for the three months ended March 31, 2019 and 2018:

	For the Three Months Ended March 31,	
	2019	2018
Management fees		
Artisan Funds	$ 106,180	$ 125,253
Artisan Global Funds	8,135	8,522
Separate accounts(1)	72,549	78,191
Performance fees		
Separate accounts(1)	98	42
Total revenues(2)	**$ 186,962**	**$ 212,008**

(1) Separate account revenue consists of fees from vehicles other than Artisan Funds or Artisan Global Funds, which includes traditional separate accounts, Artisan-branded collective investment trusts and funds (both public and private) that Artisan advises, including Artisan Private Funds.

(2) 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:

	As of March 31, 2019	As of December 31, 2018
Customer		
Artisan Funds	$ 6,042	$ 5,418
Artisan Global Funds	3,324	417
Separate accounts	64,490	59,787
Total receivables from contracts with customers	$ 73,856	$ 65,622
Non-customer receivables	5,400	2,069
Accounts receivable	**$ 79,256**	**$ 67,691**

Artisan Funds and Artisan Global Funds are billed on the last day of each month. Artisan Funds and Artisan Global Funds make payments on the same day the invoice is received for the majority of the invoiced amount. The remainder of the invoice is generally paid 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 March 31, 2019 or December 31, 2018.

Note 10. Compensation and Benefits

Total compensation and benefits consists of the following:

	For the Three Months Ended March 31,	
	2019	2018
Salaries, incentive compensation and benefits [1]	$ 87,708	$ 91,381
Restricted share-based award compensation expense	11,574	13,843
Total compensation and benefits	**$ 99,282**	**$ 105,224**

[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 or become eligible to vest only upon a combination of both (1) pro-rata annual time vesting and (2) qualifying retirement (as defined in the award agreements).

A portion of the share-based awards granted to portfolio managers contain a Franchise Protection Clause, which provides that the number of awards that ultimately vest depends on achieving performance goals related to client cash flows. If such goals are not met, compensation cost will be reversed for any awards that do not vest. The fair value, requisite service period and expense recognition for these awards are determined in the same manner as the other share-based awards.

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. 5,594,913 shares of Class A common stock were reserved and available for issuance under the Plan as of March 31, 2019.

During the three months ended March 31, 2019, Artisan granted 959,000 restricted stock awards and 4,000 restricted stock units of Class A common stock to employees of the Company. Total compensation expense associated with the 2019 grant is expected to be approximately $22.1 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 three months ended March 31, 2019:

	Weighted-Average Grant Date Fair Value	Number of Awards
Unvested at January 1, 2019	**$ 38.04**	**4,678,457**
Granted	22.92	963,000
Forfeited	34.29	(10,914)
Vested	35.35	(477,155)
Unvested at March 31, 2019	**$ 35.47**	**5,153,388**

The unrecognized compensation expense for the unvested awards as of March 31, 2019 was $112.7 million with a weighted average recognition period of 3.6 years remaining.

During the three months ended March 31, 2019, the Company withheld a total of 74,006 restricted shares as a result of net share settlements to satisfy employee tax withholding obligations. The Company paid $1.8 million in employee tax withholding obligations related to these settlements during the three months ended March 31, 2019. These net share settlements had the effect of shares repurchased and retired by the Company, as they reduced the number of shares outstanding.

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 as well as foreign income taxes payable by Holdings' subsidiaries. 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 three months ended March 31, 2019, approximately 31% 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. APAM's effective tax rate was 15.9% and 14.6% for the three months ended March 31, 2019 and 2018, respectively.

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

	For the Three Months Ended March 31,	
	2019	2018
Current:		
Federal	$ 1,313	$ 4,149
State and local	515	767
Foreign	121	117
Total	1,949	5,033
Deferred:		
Federal	6,696	6,480
State and local	797	772
Total	7,493	7,252
Income tax expense	**$ 9,442**	**$ 12,285**

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") or its assignees 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 or their assignees 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 Unaudited 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 three months ended March 31, 2019 is summarized as follows:

	Deferred Tax Asset - Amortizable basis	Amounts payable under tax receivable agreements
December 31, 2018	**$ 404,715**	**$ 369,355**
2019 Holdings Common Unit Exchanges	6,340	5,389
Amortization	(7,703)	—
March 31, 2019	**$ 403,352**	**$ 374,744**

Net deferred tax assets comprise the following:

	As of March 31, 2019	As of December 31, 2018
Deferred tax assets:		
Amortizable basis [1]	$ 403,352	$ 404,715
Other [2]	25,352	24,413
Total deferred tax assets	428,704	429,128
Less: valuation allowance [3]	—	—
Net deferred tax assets	**$ 428,704**	**$ 429,128**

[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 March 31, 2019 and December 31, 2018.

In the normal course of business, Artisan is subject to examination by federal and certain state, local and foreign tax regulators. As of March 31, 2019, U.S. federal income tax returns for the years 2015 through 2017 are open and therefore subject to examination. State, local, and 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 Unaudited Condensed Consolidated Statements of Financial Condition represents the portion of accumulated other comprehensive income attributable to APAM, and consists of the following:

	As of March 31, 2019	As of December 31, 2018
Foreign currency translation gain (loss)	(1,658)	(1,895)
Accumulated Other Comprehensive Income (Loss)	**$ (1,658)**	**$ (1,895)**

Comprehensive income (loss) attributable to noncontrolling interests - Artisan Partners Holdings in the Unaudited 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 (both 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 months ended March 31, 2019 and 2018 were as follows:

	For the Three Months Ended March 31,	
Basic and Diluted Earnings Per Share	**2019**	**2018**
Numerator:		
Net income attributable to APAM	$ 31,539	$ 41,274
Less: Allocation to participating securities	7,733	5,924
Net income available to common stockholders	$ 23,806	$ 35,350
Denominator:		
Weighted average shares outstanding	50,145,684	47,360,438
Earnings per share	**$ 0.47**	**$ 0.75**

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 months ended March 31, 2019 and 2018. 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 March 31,	
Anti-Dilutive Weighted Average Shares Outstanding	**2019**	**2018**
Holdings limited partnership units	22,584,238	24,558,161
Unvested restricted share-based awards	4,875,738	4,564,084
Total	**27,459,976**	**29,122,245**

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. Leases

Artisan has lease commitments for office space, parking structures, and equipment, which are all accounted for as operating leases. Artisan records expense for operating leases on a straight-line basis over the lease term. Any lease incentives received by Artisan are also amortized on a straight-line basis over the lease term.

Artisan assesses its contractual arrangements for the existence of a lease at inception. Operating leases with an initial term greater than 12 months are recorded as operating lease assets and operating lease liabilities in the Unaudited Condensed Consolidated Statements of Financial Condition. Lease components (e.g. fixed rental payments) and non-lease components (e.g. fixed common-area maintenance costs) are generally accounted for as a single component.

Operating lease assets and operating lease liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. Artisan's lease agreements generally do not provide an implicit interest rate, and therefore the present value calculation uses Artisan's estimated incremental borrowing rate. A market-based approach was used to estimate the incremental borrowing rate for each individual lease using observable market interest rates and Artisan specific inputs. The lease terms include periods covered by options to extend or exclude periods covered by options to terminate the lease when it is reasonably certain that Artisan will exercise that option.

Operating lease expense was as follows:

	For the Three Months Ended March 31,	
	2019	**2018**
Compensation and benefits	$ 130	$ 116
Occupancy [(1)]	5,394	2,826
Communication and technology	78	87
Total operating lease expense	**$ 5,602**	**$ 3,029**

(1) Occupancy includes a $1.4 million charge related to the abandonment of a leased office space during the three months ended March 31, 2019.

The table below presents the maturity of operating lease liabilities, which includes $2.6 million of payments related to options to extend lease terms that are reasonably certain of being exercised:

	As of March 31, 2019
2019 (excluding the three months ended March 31, 2019)	$ 10,978
2020	16,109
2021	16,237
2022	14,814
2023	13,435
Thereafter	60,495
Total undiscounted lease payments	$ 132,068
Adjustment to discount to present value	(24,581)
Total operating lease liabilities	**$ 107,487**

As of March 31, 2019, there were not any leases that were signed but not yet commenced.

Other information related to leases was as follows:

	For the Three Months Ended March 31, 2019
Weighted average discount rate	4.7%
Weighted average remaining lease term	8.8 years
Operating cash flows for operating leases	$ 3,350

At December 31, 2018, the aggregate future minimum payments for leases for each of the following five years and thereafter are as follows:

		As of December 31, 2018
2019	$	14,123
2020		15,340
2021		15,215
2022		13,748
2023		12,378
Thereafter		57,185
Total undiscounted lease payments	**$**	**127,989**

Note 16. Related Party Transactions

Several of the current executive officers and directors of APAM or entities associated with those individuals, 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 1.05%. 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 March 31,			
Artisan Funds	**2019**		**2018**	
Investment management fees (Gross of fee waivers/expense reimbursements)	$	106,281	$	125,362
Fee waivers / expense reimbursements	$	101	$	109

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 annual 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 also employees of 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 March 31,	
Artisan Global Funds	**2019**	**2018**
Investment management fees (Gross of fee waivers/expense reimbursements)	$ 8,172	$ 8,532
Elimination of management fees from consolidated investment products[1]	(16)	(6)
Consolidated investment management fees (Gross of fee waivers / expense reimbursements)	**8,156**	**8,526**
Fee waivers / expense reimbursements	$ 124	$ 58
Elimination of fee waivers / expense reimbursements from consolidated investment products[1]	(103)	(54)
Consolidated fee waivers / expense reimbursements	**21**	**4**

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

Affiliate transactions—Artisan Private Funds

Pursuant to written agreements, Artisan serves as the investment manager, and acts as the general partner, for certain Artisan Private Funds. Under the terms of these agreements, Artisan earns a management fee and is entitled to receive an allocation of profits. In addition, for a period of time following the formation of each private fund, Artisan has agreed to reimburse the fund 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 fund. Artisan may also voluntarily waive fees or reimburse the funds for other expenses.

Artisan and certain related parties, including employees, officers and members of the Company's board have invested in one or more of the funds and currently do not pay a management fee or incentive allocation. 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 March 31,	
Artisan Private Funds	**2019**	**2018**
Investment management fees (Gross of fee waivers/expense reimbursements)	$ 604	$ 98
Elimination of management fees from consolidated investment products[1]	(40)	(98)
Consolidated investment management fees (Gross of fee waivers / expense reimbursements)	**564**	**—**
Fee waivers / expense reimbursements	$ 53	$ 9
Elimination of fee waivers / expense reimbursements from consolidated investment products[1]	(53)	(9)
Consolidated fee waivers / expense reimbursements	**—**	**—**

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

Note 17. Subsequent Events

Distributions and dividends

APAM, acting as the general partner of Artisan Partners Holdings, declared, effective April 30, 2019, a distribution by Artisan Partners Holdings of $34.3 million to holders of Artisan Partners Holdings partnership units, including APAM. At the same time, the board of directors of APAM declared, effective April 30, 2019, a quarterly dividend of $0.55 per share of Class A common stock. The APAM dividend is payable on May 31, 2019, to shareholders of record as of May 17, 2019.

Holdings Unit Exchanges

On April 2, 2019, limited partners of Artisan Partners Holdings exchanged 452,629 common units for 452,629 Class A common shares. The exchange increased APAM's equity ownership interest in Holdings and resulted in a $3.5 million increase in deferred tax assets and a $3.0 million increase in amounts payable under the tax receivable agreements.

TRA Payments

On April 15, 2019, the Company made a payment of $19.0 million under the tax receivable agreements representing a portion of the Company's estimated total 2019 TRA payments.

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 March 31, 2019, our nine 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 March 31, 2019, approximately 79% of our assets under management were managed for clients and investors domiciled in the U.S. and 21% 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 believe 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 first quarter of 2019, our assets under management increased to $107.8 billion, an increase of $11.6 billion, or 12%, compared to $96.2 billion at December 31, 2018, as a result of $12.7 billion in market appreciation partially offset by $1.1 billion of net client cash outflows. Average assets under management for the March 2019 quarter was $104.9 billion, a decrease of 11% from the average of $118.3 billion for the March 2018 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 $187.0 million for the three months ended March 31, 2019, a 12% decrease from revenues of $212.0 million for the three months ended March 31, 2018. Operating margin was 30.9% for the three months ended March 31, 2019, compared to 37.7% for the three months ended March 31, 2018.

Business highlights for the first quarter of 2019 included:

- Our assets under management as of March 31, 2019 were $107.8 billion, an increase of 12.0% compared to December 31, 2018, as a result of strong markets. Average assets under management for the first quarter were $104.9 billion.
- Our investment teams continued 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 a quarterly dividend of $0.56 per share and a special dividend of $1.03 per share of Class A common stock.
- Our Irish subsidiary was authorized by the Central Bank of Ireland to provide certain investment services in the European Union.

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 29% of the equity interests in Holdings as of March 31, 2019. As a result, our results reflect that significant noncontrolling interest.

We operate our business in a single segment.

2019 Holdings Unit Exchanges

During the three months ended March 31, 2019, certain limited partners of Holdings exchanged 680,793 common units (along with a corresponding number of shares of Class B or C common stock of APAM) for 680,793 shares of Class A common stock. In connection with the exchanges, APAM received 680,793 GP units of Holdings.

APAM’s equity ownership interest in Holdings increased from 70% at December 31, 2018 to 71% at March 31, 2019, 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 months ended March 31, 2019 and 2018:

	For the Three Months Ended March 31,	
	2019	**2018**
S&P 500 total returns	13.6%	(0.8)%
MSCI All Country World total returns	12.2%	(1.0)%
MSCI EAFE total returns	10.0%	(1.5)%
Russell Midcap® total returns	16.5%	(0.5)%
MSCI Emerging Markets Index	9.9%	1.4 %
ICE BofA Merrill Lynch U.S. High Yield Master II Total Return Index	7.4%	(0.9)%

Key Performance Indicators

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

	For the Three Months Ended March 31,	
	2019	2018
	(unaudited; dollars in millions)	
Assets under management at period end	$ 107,803	$ 114,816
Average assets under management [1]	$ 104,938	$ 118,275
Net client cash flows	$ (1,110)	$ (603)
Total revenues	$ 187.0	$ 212.0
Weighted average fee [2]	72.3 bps	72.8 bps
Operating margin	30.9%	37.7%

[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.

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 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, strategies, vehicles, or services 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 March 31,		Period-to-Period [2]	
	2019	2018	$	%
	(unaudited; in millions)			
Beginning assets under management	$ 96,224	$ 115,494	$ (19,270)	(16.7)%
Gross client cash inflows	4,700	5,419	(719)	(13.3)%
Gross client cash outflows	(5,810)	(6,022)	212	3.5 %
Net client cash flows	(1,110)	(603)	(507)	(84.1)%
Market appreciation (depreciation) [1]	12,689	(75)	12,764	NM
Ending assets under management	$ 107,803	$ 114,816	$ (7,013)	(6.1)%
Average assets under management	$ 104,938	$ 118,275	$ (13,337)	(11.3)%

[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] "NM" stands for Not Meaningful.

Across the firm, we experienced total net outflows of $1.1 billion during the three months ended March 31, 2019. The Global Equity team experienced $672 million of net outflows primarily driven by $879 million of net outflows from the Non-U.S. Growth strategy partially offset by $236 million of net inflows from the Non-U.S. Small-Mid Growth strategy. The Growth team experienced $368 million of net outflows primarily driven by the U.S. Mid-Cap Growth and Global Opportunities strategies which had net outflows of $275 million and $232 million, respectively. The U.S. Value team experienced $225 million of net outflows primarily driven by the U.S. Mid-Cap Value strategy which had net outflows of $194 million. We expect net outflows from the Non-U.S. Growth, U.S. Mid-Cap Growth, and U.S. Mid-Cap Value strategies to continue to weigh on our firm-wide net flows.

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. Value and U.S. Small-Cap Growth strategies are closed to most new investors and client relationships. Our Global Opportunities strategy is open across pooled vehicles, but closed to most new separate account clients. We may selectively accept additional separate account clients in that strategy, but we are managing asset flows into that strategy 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.

The table on the following page sets forth the total assets under management for our investment teams and strategies as of March 31, 2019, 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 March 31, 2019. 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 March 31, 2019, are maintained in separate composites the results of which are not included below.

Investment Team and Strategy	Composite Inception Date	Strategy AUM (in $MM)	Average Annual Total Returns (gross) (%) 1 YR	3 YR	5 YR	10 YR	Inception	Average Annual Value-Added[(1)] Since Inception (bps)
Growth Team								
Global Opportunities Strategy	2/1/2007	$ 16,934	4.12%	14.75%	11.18%	17.73%	10.47%	567
MSCI All Country World Index			*2.60%*	*10.67%*	*6.45%*	*11.98%*	*4.80%*	
Global Discovery Strategy	9/1/2017	$ 240	11.07%				14.41%	849
MSCI All Country World Index			*2.60%*				*5.92%*	
U.S. Mid-Cap Growth Strategy	4/1/1997	$ 10,722	14.07%	15.32%	9.34%	18.14%	15.05%	485
Russell Midcap® Index			*6.47%*	*11.82%*	*8.80%*	*16.87%*	*10.20%*	
Russell Midcap® Growth Index			*11.51%*	*15.06%*	*10.88%*	*17.59%*	*9.38%*	
U.S. Small-Cap Growth Strategy	4/1/1995	$ 2,936	18.39%	23.11%	12.29%	20.76%	11.11%	198
Russell 2000® Index			*2.05%*	*12.92%*	*7.05%*	*15.35%*	*9.13%*	
Russell 2000® Growth Index			*3.85%*	*14.87%*	*8.41%*	*16.51%*	*7.82%*	
Global Equity Team								
Global Equity Strategy	4/1/2010	$ 1,407	7.15%	15.88%	9.55%		12.53%	456
MSCI All Country World Index			*2.60%*	*10.67%*	*6.45%*		*7.97%*	
Non-U.S. Growth Strategy	1/1/1996	$ 22,469	(0.54)%	7.79%	3.67%	11.54%	9.93%	533
MSCI EAFE Index			*(3.71)%*	*7.27%*	*2.33%*	*8.95%*	*4.60%*	
Non-U.S. Small-Mid Growth Strategy[2]	1/1/2019	$ 851					15.63%	538
MSCI All Country World Index Ex USA Small Mid Cap							*10.25%*	
U.S. Value Team								
Value Equity Strategy	7/1/2005	$ 2,436	2.33%	11.12%	7.02%	14.34%	7.98%	(86)
Russell 1000® Index			*9.30%*	*13.52%*	*10.63%*	*16.04%*	*8.84%*	
Russell 1000® Value Index			*5.67%*	*10.45%*	*7.72%*	*14.51%*	*7.25%*	
U.S. Mid-Cap Value Strategy	4/1/1999	$ 4,734	0.27%	9.09%	4.88%	14.32%	12.52%	320
Russell Midcap® Index			*6.47%*	*11.82%*	*8.80%*	*16.87%*	*9.32%*	
Russell Midcap® Value Index			*2.89%*	*9.50%*	*7.21%*	*16.38%*	*9.55%*	
International Value Team								
Non-U.S. Value Strategy	7/1/2002	$ 19,871	(2.82)%	7.63%	4.63%	13.77%	11.60%	571
MSCI EAFE Index			*(3.71)%*	*7.27%*	*2.33%*	*8.95%*	*5.89%*	
Global Value Team								
Global Value Strategy	7/1/2007	$ 18,449	0.09%	9.96%	6.71%	15.51%	8.21%	398
MSCI All Country World Index			*2.60%*	*10.67%*	*6.45%*	*11.98%*	*4.23%*	
Sustainable Emerging Markets Team								
Sustainable Emerging Markets Strategy	7/1/2006	$ 201	(6.72)%	13.94%	6.65%	9.75%	5.81%	62
MSCI Emerging Markets Index			*(7.41)%*	*10.68%*	*3.68%*	*8.94%*	*5.19%*	
Credit Team								
High Income Strategy	4/1/2014	$ 3,323	5.36%	9.95%	7.11%		7.11%	242
ICE BofAML US High Yield Master II Total Return Index			*5.94%*	*8.69%*	*4.69%*		*4.69%*	
Developing World Team								
Developing World Strategy	7/1/2015	$ 2,228	4.90%	15.70%			10.18%	556
MSCI Emerging Markets Index			*(7.41)%*	*10.68%*			*4.62%*	
Thematic Team								
Thematic Strategy	5/1/2017	$ 687	18.61%				29.75%	1,810
S&P 500 Market Index (Total Return)			*9.50%*				*11.66%*	
Other Assets Under Management [3]		$ 315						
Total Assets Under Management		**$ 107,803**						

(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. Value-added for periods of less than one year are not annualized.

(2) Effective December 4, 2018, the Non-U.S. Small-Cap Growth strategy was re-named the Non-U.S. Small-Mid Growth strategy and the strategy was given increased degrees of freedom to invest in both small and mid-cap companies around the world. In connection with that change, the strategy's prior composite was terminated and a new composite began on January 1, 2019. The performance information shown is from January 1, 2019 inception date.
(3) 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:

	By Investment Team									
Three Months Ended	**Growth**	**Global Equity**	**U.S. Value**	**International Value**	**Global Value**	**Sustainable Emerging Markets**	**Credit**	**Developing World**	**Thematic**	**Total**
March 31, 2019	(unaudited; in millions)									
Beginning assets under management	$ 26,251	$ 22,967	$ 6,577	$ 17,681	$ 17,113	$ 179	$ 2,860	$ 1,993	$ 603	$ 96,224
Gross client cash inflows	1,117	715	170	1,389	247	4	552	199	307	4,700
Gross client cash outflows	(1,485)	(1,387)	(395)	(996)	(870)	(2)	(217)	(405)	(53)	(5,810)
Net client cash flows	(368)	(672)	(225)	393	(623)	2	335	(206)	254	(1,110)
Market appreciation (depreciation)	4,949	2,432	818	1,797	1,959	20	188	441	85	12,689
Net transfers(1)	—	—	—	—	—	—	—	—	—	—
Ending assets under management	$ 30,832	$ 24,727	$ 7,170	$ 19,871	$ 18,449	$ 201	$ 3,383	$ 2,228	$ 942	$ 107,803
Average assets under management	$ 29,241	$ 24,197	$ 7,179	$ 19,447	$ 18,533	$ 195	$ 3,160	$ 2,151	$ 835	$ 104,938
March 31, 2018										
Beginning assets under management	$ 30,628	$ 29,235	$ 8,765	$ 21,757	$ 19,930	$ 282	$ 2,554	2,253	$ 90	$ 115,494
Gross client cash inflows	1,282	1,046	250	932	1,192	7	352	331	27	5,419
Gross client cash outflows	(2,186)	(1,798)	(584)	(589)	(529)	(4)	(258)	(72)	(2)	(6,022)
Net client cash flows	(904)	(752)	(334)	343	663	3	94	259	25	(603)
Market appreciation (depreciation)	1,147	128	(236)	(737)	(398)	7	10	(3)	7	(75)
Net transfers(1)	—	—	—	—	—	—	—	—	—	—
Ending assets under management	$ 30,871	$ 28,611	$ 8,195	$ 21,363	$ 20,195	$ 292	$ 2,658	2,509	$ 122	$ 114,816
Average assets under management	$ 31,861	$ 29,678	$ 8,614	$ 21,962	$ 20,671	$ 294	$ 2,633	2,450	$ 112	$ 118,275

(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.

The goal of our marketing, distribution and client services efforts is to grow 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 [(1)]:

	As of March 31, 2019		**As of March 31, 2018**	
	$ in millions	**% of total**	**$ in millions**	**% of total**
	(unaudited)		(unaudited)	
Institutional	$ 71,432	66.3%	$ 75,008	65.3%
Intermediary	31,613	29.3%	34,754	30.3%
Retail	4,758	4.4%	5,054	4.4%
Ending Assets Under Management	$ 107,803	100.0%	$ 114,816	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 made up approximately 12% of our total assets under management as of March 31, 2019.

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

Three Months Ended	Artisan Funds & Artisan Global Funds	Separate Accounts	Total
March 31, 2019		(unaudited; in millions)	
Beginning assets under management	$ 46,654	$ 49,570	$ 96,224
Gross client cash inflows	3,466	1,234	4,700
Gross client cash outflows	(4,113)	(1,697)	(5,810)
Net client cash flows	(647)	(463)	(1,110)
Market appreciation (depreciation)	5,944	6,745	12,689
Net transfers [(1)]	—	—	—
Ending assets under management	$ 51,951	$ 55,852	$ 107,803
Average assets under management	$ 50,594	$ 54,344	$ 104,938
March 31, 2018			
Beginning assets under management	$ 57,349	$ 58,145	$ 115,494
Gross client cash inflows	4,538	881	5,419
Gross client cash outflows	(3,458)	(2,564)	(6,022)
Net client cash flows	1,080	(1,683)	(603)
Market appreciation (depreciation)	(243)	168	(75)
Net transfers [(1)]	(236)	236	—
Ending assets under management	$ 57,950	$ 56,866	$ 114,816
Average assets under management	$ 58,876	$ 59,399	$ 118,275

[(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 March 31, 2019, Compared to Three months ended March 31, 2018

	For the Three Months Ended March 31,		For the Period-to-Period	
	2019	2018	$	%
Statements of operations data:	(unaudited; in millions, except share and per-share data)			
Revenues	$ 187.0	$ 212.0	$ (25.0)	(12)%
Operating Expenses				
Total compensation and benefits	99.3	105.2	(5.9)	(6)%
Other operating expenses	30.0	26.8	3.2	12 %
Total operating expenses	129.3	132.0	(2.7)	(2)%
Total operating income	57.7	80.0	(22.3)	(28)%
Non-operating income (expense)				
Interest expense	(2.8)	(2.8)	—	— %
Other non-operating income	4.3	6.7	(2.4)	(36)%
Total non-operating income (expense)	1.5	3.9	(2.4)	(62)%
Income before income taxes	59.2	83.9	(24.7)	(29)%
Provision for income taxes	9.4	12.2	(2.8)	(23)%
Net income before noncontrolling interests	49.8	71.7	(21.9)	(31)%
Less: Noncontrolling interests - Artisan Partners Holdings	17.3	26.1	(8.8)	(34)%
Less: Noncontrolling interests - consolidated investment products	1.0	4.3	(3.3)	(77)%
Net income attributable to Artisan Partners Asset Management Inc.	$ 31.5	$ 41.3	$ (9.8)	(24)%
Share Data				
Basic and diluted earnings per share	$ 0.47	$ 0.75		
Basic and diluted weighted average number of common shares outstanding	50,145,684	47,360,438		

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 decrease in revenues of $25.0 million, or 12%, for the three months ended March 31, 2019, compared to the three months ended March 31, 2018, was driven primarily by a $13.3 billion, or 11%, decrease in our average assets under management. The weighted average investment management fee was 72.3 basis points for the three months ended March 31, 2019 compared to 72.8 basis points for the three months ended March 31, 2018. The decrease in the weighted average fee was primarily due to an increase in the proportion of total assets managed in separate accounts.

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

	Separate Accounts		Artisan Funds and Artisan Global Funds	
For the Three Months Ended March 31,	2019	2018	2019	2018
	(unaudited; dollars in millions)			
Investment management fees	$ 72.7	$ 78.2	$ 114.3	$ 133.8
Weighted average fee	54.3 basis points	53.5 basis points	91.6 basis points	92.2 basis points
Percentage of ending AUM	52%	50%	48%	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 decrease in total operating expenses of $2.7 million for the three months ended March 31, 2019, compared to the three months ended March 31, 2018, was primarily a result of lower compensation and third-party distribution expense due to decreased revenues and lower equity-based compensation expense. The decreases were partially offset by an increase in occupancy expense related to investment team relocations and compensation expense related to merit increases and additional employees.

Compensation and Benefits

	For the Three Months Ended March 31,		Period-to-Period	
	2019	**2018**	**$**	**%**
	(unaudited; in millions)			
Salaries, incentive compensation and benefits	$ 87.7	$ 91.4	$ (3.7)	(4)%
Restricted share-based award compensation expense	11.6	13.8	$ (2.2)	(16)%
Total compensation and benefits	**$ 99.3**	**$ 105.2**	**$ (5.9)**	(6)%

(1) Excluding restricted share-based award compensation expense

The decrease in salaries, incentive compensation, and benefits was driven primarily by a $7.2 million decrease in incentive compensation paid to our investment and marketing professionals as a result of the decrease in revenue. The decrease in incentive compensation was partially offset by compensation expense related to merit increases and additional employees.

Restricted share-based award compensation expense decreased $2.2 million, as the awards that became fully amortized during 2018 had a higher value than the awards granted in 2018 and 2019. During the three months ended March 31, 2019, Artisan granted 959,000 restricted stock awards and 4,000 restricted stock units of Class A common stock to employees of the Company. Total compensation expense associated with the 2019 grant is expected to be approximately $22.1 million.

Total salaries, incentive compensation and benefits was 53% and 50% of our revenues for the three months ended March 31, 2019, and 2018, respectively.

Other operating expenses

Other operating expenses increased $3.2 million for the three months ended March 31, 2019 compared to the three months ended March 31, 2018 primarily due to increased occupancy and technology expenses. During the three months ended March 31, 2019, we incurred approximately $2.0 million of incremental occupancy expense related to the office relocation of one of our investment teams. The increased expense includes accelerated depreciation expense and accelerated expense for the remaining lease costs to be incurred for an exited location.

Non-Operating Income (Expense)

Non-operating income (expense) consisted of the following:

	For the Three Months Ended March 31,		Period-to-Period	
	2019	**2018**	**$**	**%**
	(unaudited; in millions)			
Interest expense	$ (2.8)	$ (2.8)	$ —	— %
Net investment gain (loss) of consolidated investment products	2.3	6.3	$ (4.0)	(63)%
Net investment income	2.0	0.4	$ 1.6	400 %
Total non-operating income (expense)	**$ 1.5**	**$ 3.9**	**$ (2.4)**	(62)%

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 March 31, 2019 and 2018 was 15.9% and 14.6%, respectively. Several factors contribute to the effective tax rate, including a rate benefit attributable to the fact that approximately 31% and 33% of Holdings' full year projected taxable earnings were not subject to corporate-level taxes for the three months ended March 31, 2019 and 2018, 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 favorably impacted in both periods due to dividends paid on unvested share-based awards, net of higher tax expense related to the vesting of restricted 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 March 31, 2019, compared to the three months ended March 31, 2018, 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.

Supplemental Non-GAAP Financial Information

Our management uses non-GAAP measures (referred to as "adjusted" measures) of net 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) net gain (loss) on the tax receivable agreements (if any), and (2) 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) net gain (loss) on the tax receivable agreements (if any), and (2) 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% for the periods presented.
- 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 EBITDA represents adjusted net income before interest expense, income taxes, depreciation and amortization expense.

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 March 31,	
	2019	2018
	(unaudited; in millions, except per share data)	
Reconciliation of non-GAAP financial measures:		
Net income attributable to Artisan Partners Asset Management Inc. (GAAP)	**$ 31.5**	**$ 41.3**
Add back: Net income attributable to noncontrolling interests - Artisan Partners Holdings	17.3	26.1
Add back: Provision for income taxes	9.4	12.2
Add back: Net investment (gain) loss of investment products attributable to APAM	(2.9)	(2.0)
Less: Adjusted provision for income taxes	13.0	18.3
Adjusted net income (Non-GAAP)	**$ 42.3**	**$ 59.3**
Average shares outstanding		
Class A common shares	50.1	47.4
Assumed vesting or exchange of:		
Unvested Class A restricted share-based awards	4.9	4.5
Artisan Partners Holdings units outstanding (noncontrolling interest)	22.6	24.6
Adjusted shares	**77.6**	**76.5**
Basic and diluted earnings per share (GAAP)	**$ 0.47**	**$ 0.75**
Adjusted net income per adjusted share (Non-GAAP)	**$ 0.55**	**$ 0.78**
Net income attributable to Artisan Partners Asset Management Inc. (GAAP)	**$ 31.5**	**$ 41.3**
Add back: Net income attributable to noncontrolling interests - Artisan Partners Holdings	17.3	26.1
Add back: Net investment (gain) loss of investment products attributable to APAM	(2.9)	(2.0)
Add back: Interest expense	2.8	2.8
Add back: Provision for income taxes	9.4	12.2
Add back: Depreciation and amortization	2.1	1.2
Adjusted EBITDA (Non-GAAP)	**$ 60.2**	**$ 81.6**

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 March 31, 2019, and December 31, 2018:

	March 31, 2019		December 31, 2018	
	(unaudited; in millions)			
Cash and cash equivalents	$	152.2	$	160.5
Accounts receivable	$	79.3	$	67.7
Seed investments[1]	$	51.2	$	48.3
Undrawn commitment on revolving credit facility	$	100.0	$	100.0

[1] Seed investments includes equity investments 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 March 31, 2019, 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 three months ended March 31, 2019.

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 March 31, 2019.

$50 million of the unsecured notes are scheduled to mature in August 2019. Subject to lender negotiations and market conditions, we currently intend to refinance the $50 million Series B notes prior to or at maturity. In the event the notes are not refinanced, we intend to use existing excess cash to pay the principal upon maturity.

Distributions and Dividends

Artisan Partners Holdings' distributions, including distributions to APAM for the three months ended March 31, 2019 and 2018, were as follows:

	For the Three Months Ended March 31,			
	2019		2018	
	(unaudited, in millions)			
Holdings Partnership Distributions to Limited Partners	$	22.6	$	22.7
Holdings Partnership Distributions to APAM	$	53.4	$	45.6
Total Holdings Partnership Distributions	**$**	**76.0**	**$**	**68.3**

On April 30, 2019, we, acting as the general partner of Artisan Partners Holdings, declared a distribution of $34.3 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 months ended March 31, 2019 and 2018:

Type of Dividend	Class of Stock	For the Three Months Ended March 31,	
		2019	2018
Quarterly	Class A Common	$ 0.56	$ 0.60
Special Annual	Class A Common	$ 1.03	$ 0.79

Our board of directors declared, effective April 30, 2019, a variable quarterly dividend of $0.55 per share of Class A common stock with respect to the March 2019 quarter, payable on May 31, 2019 to shareholders of record as of the close of business on May 17, 2019. The variable quarterly dividend of $0.55 per share represents approximately 80% of the cash generated in the March 2019 quarter and a pro-rata portion of 2018 tax savings related to our tax receivable agreements.

Subject to board approval each quarter, we currently expect to pay a quarterly dividend of approximately 80% of the cash the Company generates each quarter. After the end of the year, our board will consider paying a special dividend that will take into consideration total annual cash generation, 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.

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 $374.7 million liability as of March 31, 2019. 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 have been and will 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. We expect to make payments of approximately $25 million in 2019 related to the TRAs, $19.0 million of which we paid on April 15, 2019.

Cash Flows

	For the Three Months Ended March 31,	
	2019	2018
	(unaudited; in millions)	
Cash, cash equivalents and restricted cash as of January 1	**$ 175.5**	**$ 159.8**
Net cash provided by operating activities	93.9	167.3
Net cash used in investing activities	(4.8)	(0.8)
Net cash used in financing activities	(109.6)	(80.1)
Cash, cash equivalents and restricted cash as of March 31	**$ 155.0**	**$ 246.2**

Net cash provided by operating activities decreased $73.4 million for the three months ended March 31, 2019 compared to the three months ended March 31, 2018, primarily due to timing differences in working capital accounts, which caused operating cash flows to decrease by $33.9 million between the comparative periods. Working capital negatively impacted operating cash flows primarily due to the timing of executive bonus payments and the timing of the collection of receivables from customers. Operating cash flows were also lower than the prior year period due to a decrease in operating income resulting from lower AUM and revenue. For the three months ended March 31, 2019 compared to the three months ended March 31, 2018, our operating income, excluding share-based related compensation expense, decreased $24.5 million. Additionally, consolidated investment product activity negatively impacted operating cash flows by $20.8 million for the three months ended March 31, 2019 compared to the three months ended March 31, 2018.

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 $4.0 million for the three months ended March 31, 2019 compared to the three months ended March 31, 2018, due to a $4.0 million increase in the acquisition of property and equipment and leasehold improvements related to the relocation of several investment teams.

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 $29.5 million for the three months ended March 31, 2019 compared to the three months ended March 31, 2018, primarily due to a $16.2 million increase in dividends paid to holders of our Class A common stock and a $13.5 million decrease in contributions from non-controlling interests in our consolidated investment products.

Certain Contractual Obligations

As of March 31, 2019, 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, 2018, filed with the SEC on February 20, 2019, except for the changes in the TRA liability during the year.

As previously discussed in this report, the TRA liability increased from $369.4 million at December 31, 2018 to $374.7 million at March 31, 2019. 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. We expect to make payments of approximately $25 million in 2019 related to the TRAs, $19 million of which we paid on April 15, 2019.

Off-Balance Sheet Arrangements

As of March 31, 2019, 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, 2018.

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, 2018.

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 March 31, 2019. 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 March 31, 2019, 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 March 31, 2019.

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 March 31, 2019 and December 31, 2018; (ii) the Unaudited Consolidated Statements of Operations for the three months ended March 31, 2019 and 2018; (iii) the Unaudited Consolidated Statements of Comprehensive Income for the three months ended March 31, 2019 and 2018; (iv) the Unaudited Consolidated Statements of Changes in Stockholders’ Equity for the three months ended March 31, 2019 and 2018; (v) the Unaudited Consolidated Statements of Cash Flows for the three months ended March 31, 2019 and 2018 (vi) the Notes to Unaudited Consolidated Financial Statements as of and for the three months ended March 31, 2019 and 2018.

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: May 1, 2019

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)

Exhibit 31.1

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: May 1, 2019

Exhibit 31.2

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: May 1, 2019

Exhibit 32.1

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 March 31, 2019 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: May 1, 2019

Exhibit 32.2

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 March 31, 2019 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: May 1, 2019