Artisan Partners Asset Management Inc.
Form 10-K
February 20, 2019

111false--12-31FY20182018-12-310001517302YesfalseLarge Accelerated
FilerfalsefalseNoYes0.010.010.010.010.010.0150000000020000000040000000000P5Y85000115000100000000200001310000
of $115 thousand and $85 thousand was paid on these TRA payments for the years ended December 31, 2018 and 2017, respectively.There were no uncertain tax positions recorded as of December?31, 2018 and December?31, 2017.Represents the net deferred tax assets associated with the merger described above and other miscellaneous deferred tax assets.Represents the unamortized step-up of tax basis from the merger described above, the purchase of common and preferred units by APAM, and the exchange of common and preferred units for Class A common shares of APAM.4,575,332 shares of Class A common stock subject to the agreement and all 8,645,249 outstanding shares of Class B common stock.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.
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2017-12-31 0001517302 us-gaap:SalesRevenueNetMember us-gaap:GeographicConcentrationRiskMember
2017-01-01 2017-12-31 0001517302 us-gaap:SalesRevenueNetMember
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0001517302 2018-10-01 2018-12-31 0001517302 2018-07-01 2018-09-30 0001517302 2018-04-01 2018-06-30
0001517302 2018-01-01 2018-03-31 0001517302 2017-04-01 2017-06-30 0001517302 2017-10-01 2017-12-31
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us-gaap:SubsequentEventMember 2019-02-04 2019-02-04 0001517302 us-gaap:SubsequentEventMember 2019-02-04 0001517302 apam:QuarterlyCashDividendMember us-gaap:CommonClassAMember us-gaap:SubsequentEventMember 2019-02-04 2019-02-04 0001517302 apam:SpecialAnnualDividendMember us-gaap:CommonClassAMember us-gaap:SubsequentEventMember 2019-02-04 2019-02-04 iso4217:USD xbrli:shares iso4217:USD apam:segment xbrli:shares xbrli:pure apam:vote

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2018**

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)

Securities registered pursuant to Section 12(b) of the Act:

Class A Common Stock, $0.01 par value	**The New York Stock Exchange**
(Title of each class)	*(Name of each exchange on which registered)*

Securities registered pursuant to section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes o No þ

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 þ 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 þ No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

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

Large accelerated filer þ	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 þ

The aggregate market value of common equity held by non-affiliates of the registrant at June 29, 2018, which was the last business day of the registrant's most recently completed second fiscal quarter, was approximately$1,614,293,320 based on the closing price of $30.15 for one share of Class A common stock, as reported on the New York Stock Exchange on that date. For purposes of this calculation only, it is assumed that the affiliates of the registrant include only directors and executive officers of the registrant.

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 February 14, 2019 were 54,063,445, 8,645,249 and 14,226,435, respectively.

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Except where the context requires otherwise, in this report:

- "Artisan Funds" refers to Artisan Partners Funds, Inc., a family of Securities and Exchange Commission registered mutual funds.
- "Artisan Global Funds" refers to Artisan Partners Global Funds PLC, a family of Ireland-domiciled funds organized pursuant to the European Union's Undertaking for Collective Investment in Transferable Securities ("UCITS").
- "Artisan Private Funds" refers to private investment funds sponsored by Artisan.

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- "client" and "clients" refer to investors who access our investment management services by investing in funds, including Artisan Funds, Artisan Global Funds, or Artisan Private Funds, or by engaging us to manage a separate account in one or more of our investment strategies (such accounts include collective investment trusts and other pooled investment vehicles for which we are investment adviser, each of which we manage on a separate account basis).
- "Company", "Artisan", "we", "us" or "our" refer to Artisan Partners Asset Management Inc. ("APAM") and, unless the context otherwise requires, its dire and indirect subsidiaries, including Artisan Partners Holdings LP ("Artisan Partners Holdings" or "Holdings"), and, for periods prior to our IPO, "Artisan," the "company," "we," "us" and "our" refer to Artisan Partners Holdings and, unless the context otherwise requires, its direct and indirect subsidiaries. On March 12, 2013, APAM closed its IPO and related IPO Reorganization. Prior to that date, APAM was a subsidiary of Artisan Partners Holdings. The IPO Reorganization and IPO are described in the notes to our consolidated financial statements included in Part II of this Form 10-K.
- "IPO" means the initial public offering of 12,712,279 shares of Class A common stock of Artisan Partners Asset Management Inc. completed on March 12, 2013.
- "IPO Reorganization" means the series of transactions Artisan Partners Asset Management Inc. and Artisan Partners Holdings completed on March 12, 2013, immediately prior to the IPO, in order to reorganize their capital structures in preparation for the IPO.
- "2017 Follow-On Offering" means the registered offering of 5,626,517 shares of Class A common stock of Artisan Partners Asset Management Inc. completed on February 28, 2017.
- "2018 Follow-On Offering: means the registered offering of 644,424 shares of Class A common stock of Artisan Partners Asset Management Inc. completed on February 27, 2018.

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 terminolo 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 this Form 10-K. 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.

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Performance and Assets Under Management Information Used in this Report

We manage investments primarily through pooled investment funds and separate accounts. We serve as investment adviser to Artisan Funds and as investment manager of Artisan Global Funds. We refer to funds and other accounts that are managed by us with a broadly common investment objective and substantially in accordance with a single model account as being part of the same investment "strategy".

We measure the results both of our individual funds and of our "composites", which represent the aggregate performance of all discretionary client accounts, including funds, invested in the same strategy, except those accounts with respect to which we believe client-imposed investment restrictions (such as socially-based 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 December 31, 2018, are maintained in separate composites, and are not presented in this report).

The performance of accounts with investment restrictions differs from the performance of accounts included in our principal composite for the applicable strategy because one or more securities may be omitted from the portfolio in order to comply with client restrictions and the weightings in the portfolio of other securities are correspondingly altered. The performance of non-U.S. dollar accounts differs from the performance of the principal composite for the applicable strategy because of the fluctuations in currency exchange rates between the currencies in which portfolio securities are traded and the currency in which the account is managed or U.S. dollars, respectively. Our assets under management in accounts with investment restrictions and non-U.S. dollar accounts represented approximately 2% and 9%, respectively, of our assets under management as of December 31, 2018. Results for any investment strategy described herein, and for different investment vehicles within a strategy, are affected by numerous factors, including: different material market or economic conditions; different investment management fee rates, brokerage commissions and other expenses; and the reinvestment of dividends or other earnings.

The returns for any strategy may be positive or negative, and past performance does not guarantee future results. In this report, we refer to the date on which we began tracking the performance of an investment strategy as that strategy's "inception date".

In this report, we present the average annual returns of our composites on a "gross" basis, which represent average annual returns before payment of fees payable to us by any portfolio in the composite and are net of commissions and transaction costs. We also present the average annual returns of certain market indices or "benchmarks" for the comparable period. The indices are unmanaged and have differing volatility, credit and other characteristics. You should not assume that there is any material overlap between the securities included in the portfolios of our investment strategies during these periods and those that comprise any of the strategy's comparator index in this report. At times, this can cause material differences in relative performance. It is not possible to invest directly in any of the indices. The returns of these indices, as presented in this report, have not been reduced by fees and expenses associated with investing in securities, but do include the reinvestment of dividends.

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The ICE BofAML US High Yield Master II Total Return Index is owned by ICE Data Indices, LLC, used with permission. ICE Data Indices, LLC permits use of the ICE BofAML indices and related data on an "as is" basis, makes no warranties regarding same, does not guarantee the suitability, quality, accuracy, timeliness, and/or completeness of the ICE BofAML indices or any data included in, related to, or derived therefrom, assumes no liability in connection with the use of the foregoing, and does not sponsor, endorse, or recommend Artisan Partners or any of its products or services.

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In this report, we present ratings from Morningstar, Inc., for the series of Artisan Funds. The Morningstar Rating™ for funds, or "star rating", is calculated for managed products (including mutual funds, variable annuity and variable life subaccounts, exchange-traded funds, closed-end funds, and separate accounts) with at least a three-year history. Exchange-traded funds and open-ended mutual funds are considered a single population for comparative purposes. It is calculated based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a managed product's monthly excess performance, placing more emphasis on downward variations and rewarding consistent performance. The top 10% of products in each product category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. The Overall Morningstar Rating for a managed product is derived from a weighted average of the performance figures associated with its three-, five-, and 10-year (if applicable) Morningstar Rating metrics. The weights are: 100% three-year rating for 36-59 months of total returns, 60% five-year rating/40% three-year rating for 60-119 months of total returns, and 50% 10-year rating/30% five-year rating/20% three-year rating for 120 or more months of total returns. While the 10-year overall star rating formula seems to give the most weight to the 10-year period, the most recent three-year period actually has the greatest impact because it is included in all three rating periods. The ratings which form the basis for the information reflected in this report, and the fund categories in which they are rated, relating to each Fund’s Investor Share Class are: Artisan Emerging Markets Fund—Diversified Emerging Markets; Artisan Global Equity Fund—World Stock; Artisan Global Opportunities Fund—World Stock; Artisan Global Value Fund—World Stock; Artisan High Income Fund—High Yield Bond; Artisan International Fund—Foreign Large Blend; Artisan International Small-Mid Fund—Foreign Small/Mid Growth; Artisan International Value Fund—Foreign Large Blend; Artisan Mid Cap Fund—Mid-Cap Growth; Artisan Mid Cap Value Fund—Mid-Cap Value; Artisan Small Cap Fund—Small Growth; Artisan Value Fund—Large Value. Morningstar ratings are initially given on a fund’s three year track record and change monthly.

Throughout this report, we present historical information about our assets under management, including information about changes in our assets under management due to gross client cash inflows and outflows, market appreciation and depreciation and transfers between investment vehicles (e.g., pooled investment vehicles and separate accounts). Gross client cash inflows and outflows represent client fundings, terminations and client initiated contributions and withdrawals (which could be in cash or in securities). Market appreciation (depreciation) represents realized gains and losses, the change in unrealized gains and losses, net income and certain miscellaneous items, immaterial in the aggregate, which may include payment of Artisan’s management fees or payment of custody expenses to the extent a client causes these fees to be paid from the account we manage. The effect of translating into U.S. dollars the value of portfolio securities denominated in currencies other than the U.S. dollar is included in market appreciation (depreciation). We also present information about our average assets under management for certain periods.

We use our information management systems to track our assets under management, the components of market appreciation and depreciation, and client inflows and outflows, and we believe the information set forth in this report regarding our assets under management, market appreciation and depreciation, and client inflows and outflows is accurate in all material respects. We also present information regarding the amount of our assets under management and client inflows and outflows sourced through particular investment vehicles and distribution channels. The allocation of assets under management and client flows sourced through particular distribution channels involves estimates because precise information on the sourcing of assets invested in Artisan Funds or Artisan Global Funds through intermediaries is not available on a complete or timely basis and involves the exercise of judgment because the same assets, in some cases, might fairly be said to have been sourced from more than one distribution channel. We have presented the information on our assets under management and client inflows and outflows sourced by distribution channel in the way in which we prepare and use that information in the management of our business. Data on our assets under management sourced by distribution channel and client inflows and outflows are not subject to our internal controls over financial reporting.

None of the information in this report constitutes either an offer or a solicitation to buy or sell any fund securities, nor is any such information a recommendation for any fund security or investment service.

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PART I
Item 1. Business
Overview
Founded in 1994, Artisan is an investment management firm focused on providing high valued added, active investment strategies to sophisticated clients globally. Our 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.
Since our founding, we have maintained a business model that is designed to maximize our ability to produce attractive investment results for our clients, and we believe this model has contributed to our success in doing so. We focus on attracting, retaining and developing talented investment professionals by creating an environment in which each investment team is provided ample resources and support, transparent and direct financial incentives, and a high degree of investment autonomy. Each of our investment teams is led by one or more experienced portfolio managers and applies its own unique investment philosophy and process. We believe this autonomous structure promotes independent analysis and accountability among our investment professionals, which we believe promotes superior investment results.
The following table sets forth our revenues and our ending and average assets under management for the periods noted:

	For the Years Ended December 31,		
	2018	2017	2016
	(in millions)		
Total revenues	$829	$796	$721
Ending assets under management	$96,224	$115,494	$96,845
Average assets under management	$113,769	$108,754	$96,281

Additional information regarding our revenues and our assets under management during the past three years is contained in Management's Discussion and Analysis of Financial Condition and Results of Operations in Part II, Item 7, as well as our consolidated financial statements, which are included in Item 8 of this Form 10-K.
Each of our investment strategies is designed to have a clearly articulated, consistent and replicable investment process that is well-understood by clients and managed to achieve long-term performance. 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 launch a new strategy only when we believe it has the potential to achieve superior investment performance in an area that we believe will have sustained client demand at attractive fee rates over the long term. We strive to maintain the integrity of the investment process followed in each of our strategies by rigorous adherence to the investment parameters we have communicated to our clients. We also carefully monitor our investment capacity in each investment 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. In order to better achieve our long-term goals, we are willing to close a strategy to new investors or otherwise take action to slow or restrict its growth, even though our short-term results may be impacted.
In addition to our investment teams, we have a management team that is focused on our business objectives of achieving profitable growth, expanding our investment capabilities, diversifying the source of our assets under management, delivering superior client service, developing our investment teams into investment franchises with multiple decision-makers and investment strategies, and maintaining the firm's fiduciary mindset and culture of compliance. Our management team supports our investment management capabilities and manages our operational infrastructure, which allows our investment professionals to focus primarily on making investment decisions and generating returns for our clients.
We offer our investment management capabilities primarily to institutions and through intermediaries that operate with institutional-like decision-making processes by means of separate accounts and pooled vehicles. We access traditional institutional clients primarily through relationships with investment consultants. We access other institutional-like investors primarily through consultants, alliances with major defined contribution/401(k) platforms and relationships with financial advisors and broker-dealers. We derive essentially all of our revenues from investment management fees, which primarily are based on a specified percentage of clients' average assets under management. These fees are determined by the investment advisory and sub-advisory agreements that are terminable by clients upon short notice or no notice.

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Investment Teams

We offer clients a broad range of actively managed investment strategies diversified by asset class, market cap, region and investment style. Each strategy is managed by one of the investment teams described below.

The table below sets forth total assets under management and certain performance information for our investment teams and strategies as of December 31, 2018.

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Investment Team and Strategy	AUM as of December 31, 2018 (in millions)	Composite Inception Date	Value-Added Since Inception Date [1] as of December 31, 2018	Fund Rating [2] as of December 31, 2018
Growth Team				
Global Opportunities	14,740	February 1, 2007	537	«««««
Global Discovery	112	September 1, 2017	473	Not yet rated
U.S. Mid-Cap Growth	9,049	April 1, 1997	463	«««
U.S. Small-Cap Growth	2,350	April 1, 1995	164	««««
Global Equity Team[3]				
Global Equity	1,271	April 1, 2010	451	««««
Non-U.S. Growth	21,181	January 1, 1996	534	«««
Non-U.S. Small-Mid Growth	515	January 1, 2019		
U.S. Value Team				
Value Equity	2,172	July 1, 2005	(83)	«««
U.S. Mid-Cap Value	4,405	April 1, 1999	343	«««
International Value Team				
Non-U.S. Value	17,681	July 1, 2002	575	««««
Global Value Team				
Global Value	17,113	July 1, 2007	407	««««
Emerging Markets Team				
Emerging Markets	179	July 1, 2006	53	««««
Credit Team				
High Income	2,803	April 1, 2014	265	«««««
Credit Opportunities	57	July 1, 2017	Not disclosed	Not applicable
Developing World Team				
Developing World	1,993	July 1, 2015	236	««««
Thematic Team				
Thematic	448	May 1, 2017	1,968	Not yet rated
Thematic Long/Short	155	November 1, 2017	Not disclosed	Not applicable
Total AUM as of December 31, 2018	96,224			

[1] Value-added since inception date is the amount in basis points by which the average annual gross composite return of each of our strategies has outperformed or underperformed the broad-based market index most commonly used by our clients to compare the performance of the relevant strategy since its inception date. Value-added for periods less than one year are not annualized. The broad-based market indices used to compute the value added since inception date for each of our strategies are as follows: Non-U.S. Growth Strategy / Non-U.S. Value Strategy-MSCI EAFE Index; Global Equity Strategy / Global Opportunities Strategy / Global Value Strategy / Global Discovery Strategy-MSCI ACWI Index; Non-U.S. Small-Mid Growth Strategy-MSCI ACWI ex USA Small Cap Index; U.S. Mid-Cap Growth Strategy / U.S. Mid-Cap Value Strategy-Russell Midcap® Index; U.S. Small-Cap Growth Strategy-Russell 2000® Index; Value Equity Strategy-Russell 1000® Index; Developing World Strategy / Emerging Markets Strategy-MSCI Emerging Markets Index; High Income Strategy-ICE BofAML US High Yield Master II Total Return Index; Thematic Strategy-S&P® 500 Index. Unlike the ICE BofAML US High Yield Master II Total Return Index, the Artisan High Income strategy may hold loans and other security types. At times, this causes material differences in relative performance.
[2] The Overall Morningstar RatingTM for a fund is derived from a weighted average of the performance figures associated with its three-year, five-year, and ten-year (if applicable) Morningstar Ratings metrics.
[3] 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. As a result, performance information for the strategy has been omitted from this presentation.

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Growth Team

Our Growth team, which was formed in 1997 and is based in Milwaukee, Wisconsin, manages four investment strategies: Global Opportunities, Global Discovery, U.S. Mid-Cap Growth and U.S. Small-Cap Growth. James D. Hamel, Matthew H. Kamm, Craigh A. Cepukenas, and Jason L. White are the portfolio managers of all four strategies. Mr. Hamel is the lead portfolio manager of the Global Opportunities strategy; Mr. White is the lead portfolio manager of the Global Discovery strategy; Mr. Kamm is the lead portfolio manager of the U.S. Mid-Cap Growth strategy; and Mr. Cepukenas is the lead portfolio manager of the U.S. Small-Cap Growth strategy.

	As of December 31, 2018				
Investment Strategy (Composite Inception Date)	**1 Year**	**3 Years**	**5 Years**	**10 Years**	**Inception**
Global Opportunities (February 1, 2007)					
Average Annual Gross Returns	**(7.92)%**	**8.84 %**	**7.86 %**	**16.10 %**	**9.27 %**
MSCI ACWI® Index	(9.42)%	6.59 %	4.26 %	9.45 %	3.90 %
Global Discovery (September 1, 2017)					
Average Annual Gross Returns	**(1.93)%**	**—**	**—**	**—**	**2.94 %**
MSCI ACWI® Index	(9.42)%	—	—	—	(1.79)%
U.S. Mid-Cap Growth (April 1, 1997)					
Average Annual Gross Returns	**(2.74)%**	**5.95 %**	**5.64 %**	**16.06 %**	**14.18 %**
Russell Midcap® Index	(9.06)%	7.04 %	6.26 %	14.02 %	9.55 %
Russell Midcap® Growth Index	(4.75)%	8.59 %	7.41 %	15.11 %	8.59 %
U.S. Small-Cap Growth (April 1, 1995)					
Average Annual Gross Returns	**3.54 %**	**12.41 %**	**7.70 %**	**17.05 %**	**10.25 %**
Russell 2000® Index	(11.01)%	7.36 %	4.41 %	11.97 %	8.61 %
Russell 2000® Growth Index	(9.31)%	7.23 %	5.13 %	13.51 %	7.19 %

Global Equity Team

Our Global Equity team was formed in 1996 and is primarily based in San Francisco and New York. The Global Equity team manages three investment strategies: Global Equity, Non-U.S. Growth, and Non-U.S. Small-Mid Growth.

Mark L. Yockey serves as portfolio manager of the Global Equity and Non-U.S. Growth strategies. Charles-Henri Hamker and Andrew J. Euretig are also portfolio managers of the Global Equity strategy and associate portfolio managers of the Non-U.S. Growth strategy.

Prior to October 15, 2018, the Non-U.S. Small-Mid Growth strategy (formerly, the Non-U.S. Small-Cap Growth strategy) was managed by Mr. Yockey and Mr. Hamker and was closed to most new investors and client relationships. Effective October 15, Rezo Kanovich became sole portfolio manager of the strategy, and the strategy re-opened to new investors. During the fourth quarter of 2018, the strategy was given increased degrees of freedom to invest in both small and mid-cap companies around the world and the strategy was re-named the Non-U.S. Small-Mid Growth strategy to reflect this evolution. In connection with these changes, the strategy'sprior composite was terminated and a new composite began on January 1, 2019. As a result of the termination of the prior composite, historical performance information has been omitted from the table below.

	As of December 31, 2018				
Investment Strategy (Composite Inception Date)	**1 Year**	**3 Years**	**5 Years**	**10 Years**	**Inception**
Global Equity (April 1, 2010)					
Average Annual Gross Returns	**(1.95)%**	**9.16 %**	**6.83 %**	**—**	**11.30 %**
MSCI ACWI® Index	(9.42)%	6.59 %	4.26 %	—	6.79 %
Non-U.S. Growth (January 1, 1996)					
Average Annual Gross Returns	**(9.80)%**	**2.90 %**	**1.31 %**	**9.30 %**	**9.56 %**
MSCI EAFE® Index	(13.79)%	2.87 %	0.53 %	6.31 %	4.22 %

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U.S. Value Team

Our U.S. Value team, which was formed in 1997 and is based in Atlanta and Chicago, manages two investment strategies: Value Equity and U.S. Mid-Cap Value. James C. Kieffer, Thomas A. Reynolds, Daniel L. Kane and, effective January 31, 2019, Craig Inman are the portfolio managers for both strategies.

	As of December 31, 2018				
Investment Strategy (Composite Inception Date)	**1 Year**	**3 Years**	**5 Years**	**10 Years**	**Inception**
Value Equity (July 1, 2005)					
Average Annual Gross Returns	**(13.73)%**	**9.53 %**	**5.00 %**	**11.86 %**	**7.13 %**
Russell 1000® Index	(4.78)%	9.08 %	8.21 %	13.27 %	7.96 %
Russell 1000® Value Index	(8.27)%	6.95 %	5.94 %	11.17 %	6.49 %
U.S. Mid-Cap Value (April 1, 1999)					
Average Annual Gross Returns	**(12.53)%**	**7.19 %**	**2.91 %**	**12.14 %**	**12.03 %**
Russell Midcap® Index	(9.06)%	7.04 %	6.26 %	14.02 %	8.60 %
Russell Midcap® Value Index	(12.29)%	6.05 %	5.44 %	13.02 %	8.93 %

Global Value and International Value Teams

Effective October 1, 2018, what was then called the Global Value team separated into two distinct and autonomous investment teams—the Global Value team led by Daniel J. O’Keefe and the International Value team led by N. David Samra. Prior to October 1, the team, which was founded in 2002 by Mr. Samra and Mr. O’Keefe, managed two investment strategies—Global Value and Non-U.S. Value, with Mr. O’Keefe serving as lead portfolio manager of the Global Value strategy and Mr. Samra serving as lead portfolio manager of the Non-U.S. Value strategy.

From and after October 1, 2018, the current Global Value team has managed the Global Value strategy, with Mr. O’Keefe serving as lead portfolio manager and Justin V. Bandy and Michael J. McKinnon serving as co-portfolio managers.

	As of December 31, 2018				
Investment Strategy (Composite Inception Date)	**1 Year**	**3 Years**	**5 Years**	**10 Years**	**Inception**
Global Value (July 1, 2007)					
Average Annual Gross Returns	**(12.02)%**	**6.53 %**	**4.73 %**	**12.77 %**	**7.35 %**
MSCI ACWI® Index	(9.42)%	6.59 %	4.26 %	9.45 %	3.28 %

From and after October 1, 2018, the current International Value team has managed the Non-U.S. Value strategy, with Mr. Samra serving as lead portfolio manager and Ian P. McGonigle and Joseph Vari serving as co-portfolio managers.

	As of December 31, 2018				
Investment Strategy (Composite Inception Date)	**1 Year**	**3 Years**	**5 Years**	**10 Years**	**Inception**
Non-U.S. Value (July 1, 2002)					
Average Annual Gross Returns	**(14.71)%**	**4.40 %**	**2.71 %**	**11.07 %**	**11.12 %**
MSCI EAFE® Index	(13.79)%	2.87 %	0.53 %	6.31 %	5.37 %

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Emerging Markets Team

Our Emerging Markets team, which was formed in 2006 and is based in New York, manages a single investment strategy. Maria Negrete-Gruson is the portfolio manager for the Emerging Markets strategy.

	As of December 31, 2018				
Investment Strategy (Composite Inception Date)	**1 Year**	**3 Years**	**5 Years**	**10 Years**	**Inception**
Emerging Markets (July 1, 2006)					
Average Annual Gross Returns	**(14.20)%**	**12.33%**	**4.17%**	**8.66%**	**5.03%**
MSCI Emerging Markets Index℠	(14.58)%	9.24%	1.65%	8.02%	4.50%

Credit Team

Our Credit team, which was formed in 2014 and is based in Denver, Colorado, manages two investment strategies: High Income and Credit Opportunities. Bryan L. Krug is the portfolio manager for both strategies. Performance information for the Credit Opportunities strategy has been intentionally omitted.

	As of December 31, 2018				
Investment Strategy (Composite Inception Date)	**1 Year**	**3 Years**	**5 Years**	**10 Years**	**Inception**
High Income (April 1, 2014)					
Average Annual Gross Returns	**(0.72)%**	**8.08%**	**—**	**—**	**6.03%**
ICE BofA Merrill Lynch U.S. High Yield Master II Total Return Index (Net)	(2.26)%	7.26%	—	—	3.38%

Developing World Team

Our Developing World team, which was formed in 2015 and is based in San Francisco, manages a single investment strategy. Lewis S. Kaufman is the portfolio manager for the Developing World strategy.

	As of December 31, 2018				
Investment Strategy (Composite Inception Date)	**1 Year**	**3 Years**	**5 Years**	**10 Years**	**Inception**
Developing World (July 1, 2015)					
Average Annual Gross Returns	**(14.53)%**	**9.77%**	**—**	**—**	**4.51%**
MSCI Emerging Markets Index	(14.58)%	9.24%	—	—	2.15%

Thematic Team

Our Thematic team, which was formed in 2016 and is based in New York, manages two investment strategies: Thematic and Thematic Long/Short. Chris Smith is the portfolio manager for both strategies. Performance information for the Thematic Long/Short strategy has been intentionally omitted.

	As of December 31, 2018				
Investment Strategy (Composite Inception Date)	**1 Year**	**3 Years**	**5 Years**	**10 Years**	**Inception**
Thematic (May 1, 2017)					
Average Annual Gross Returns	**11.55%**	**—**	**—**	**—**	**24.80%**
S&P 500 Index	(4.38)	—	—	—	5.12%

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Distribution, Investment Products and Client Relationships

The goal of our marketing, distribution and client service efforts is to grow and maintain a client base that is diversified by investment strategy, investment vehicle (for example, across mutual funds and separate accounts), distribution channel (for example, institutional, intermediary and retail) and geographic region. We focus our distribution and marketing efforts on institutions and on intermediaries that operate with institutional-like, centralized decision-making processes and longer-term investment horizons. We have designed our distribution strategies and structured our distribution teams to use knowledgeable, seasoned marketing and client service professionals in a way intended to limit the time our investment professionals are required to spend in marketing and client service activities. We believe that minimizing other demands allows our portfolio managers and other investment professionals to focus their energies and attention on the investment decision-making process, which we believe enhances the opportunity to achieve superior investment returns. Our distribution efforts are centrally managed by our Head of Global Distribution, who oversees and coordinates the efforts of our marketing and client service professionals.

We continue to expand our distribution efforts into non-U.S. markets, with our primary non-U.S. efforts focused currently on the United Kingdom, other European countries, Australia, Canada and certain countries in the Middle East, Africa, and Asia. In our non-U.S. distribution efforts, we use regional specialists who draw on the knowledge and expertise of our strategy-focused professionals. As of December 31, 2018, 21% of our total assets under management were sourced from clients located outside the United States.

Institutional Channel

Our institutional distribution channel includes institutional clients, such as U.S.-registered mutual funds, non-U.S. funds and collective investment trusts we sub-advise; state and local governments; employee benefit plans including Taft-Hartley plans; foundations; and endowments. Our institutional distribution channel also includes defined contribution/401(k) plans. We offer our investment products to institutional clients directly and by marketing our services to the investment consultants and advisors that advise them. As of December 31, 2018, approximately 45% of our assets under management were attributed to clients represented by investment consultants.

As of December 31, 2018, 66% of our assets under management were sourced through our institutional channel.

Intermediary Channel

We maintain relationships with a number of major brokerage firms and larger private banks and trust companies at which the process for identifying which funds to offer has been centralized to a relatively limited number of key decision-makers that exhibit institutional decision-making behavior. We also maintain relationships with a number of financial advisory firms and broker-dealer advisors that offer our investment products to their clients. These advisors range from relatively small firms to large organizations.

As of December 31, 2018, approximately 29% of our assets under management were sourced through our intermediary channel.

Retail Channel

We primarily access retail investors indirectly through mutual fund supermarkets through which investors have the ability to purchase and redeem fund shares. U.S. investors can also invest directly in the series of Artisan Funds. Our subsidiary, Artisan Partners Distributors LLC, a registered broker-dealer, distributes shares of Artisan Funds. Publicity and ratings and rankings from Morningstar, Lipper and others are important in building the Artisan Partners brand, which is important in attracting retail investors. As a result, we publicize the ratings and rankings received by the series of Artisan Funds and work to ensure that potential retail investors have appropriate information to evaluate a potential investment in Artisan Funds. We do not generally use direct marketing campaigns as we believe that their cost outweighs their potential benefits.

As of December 31, 2018, approximately 5% of our assets under management were sourced from investors we categorize as retail investors.

Access Through a Range of Investment Vehicles

Our clients access our investment strategies through a range of investment vehicles, including separate accounts and pooled vehicles. As of December 31, 2018, approximately 52% of our assets under management were in separate accounts, and Artisan Funds and Artisan Global Funds accounted for approximately 48% of our total assets under management.

Separate Accounts

We manage separate account assets within most of our investment strategies. As of December 31, 2018, we managed 211 separate accounts spanning 132 client relationships and our largest separate account relationship represented approximately 9% of our assets under management. Our separate account clients include both institutional and intermediary channel relationships. We generally require a minimum relationship of $20 million to $100 million, depending on the strategy, to manage a separate account. We also offer access to a number of our strategies through Artisan-branded collective investment trusts and through funds (both public and private) that we advise or sub-advise. The fees we charge our separate accounts vary by client, investment strategy and the size of the account. Fees are accrued monthly, but generally are paid quarterly in arrears.

In our reporting materials, unless otherwise stated, our separate account AUM includes 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 Artisan Private Funds.

Artisan Funds and Artisan Global Funds

U.S. investors that do not meet our minimum account size for a separate account, or who otherwise prefer to invest through a mutual fund, can invest in our strategies through Artisan Funds. We serve as the investment adviser to each series of Artisan Funds, SEC-registered mutual funds that offer no-load, no 12b-1 share classes designed to meet the needs of a range of investors. Each series of Artisan Funds corresponds to an investment strategy we offer to clients. We earn investment management fees, which are based on the average daily net assets of each Artisan Fund and are paid monthly, for serving as investment adviser to these funds.

We also serve as investment manager of Artisan Global Funds, a family of Ireland-based UCITS funds. Artisan Global Funds, which began operations in 2011, provides non-U.S. investors with access to a number of our investment strategies. We earn investment management fees, which are based on the average daily net assets of each sub-fund and are generally paid monthly, for serving as investment adviser to these funds.

Regulatory Environment and Compliance

Our business is subject to extensive regulation in the United States at the federal level and, to a lesser extent, the state level, as well as by self-regulatory organizations and regulators located outside the United States. Under these laws and regulations, agencies that regulate investment advisers have broad administrative powers, including the power to limit, restrict or prohibit an investment adviser from carrying on its business in the event that it fails to comply with such laws and regulations. Possible sanctions that may be imposed include the suspension of individual employees, limitations on engaging in certain lines of business for specified periods of time, revocation of investment adviser and other registrations, censures and fines. A regulatory proceeding, regardless of whether it results in a sanction, can require substantial expenditures and can have an adverse effect on our reputation or business.

U.S. Regulation

Artisan Partners Limited Partnership and Artisan Partners UK LLP are registered with the SEC as investment advisers under the Advisers Act, and Artisan Funds and several of the investment companies we sub-advise are registered under the 1940 Act. The Advisers Act and the 1940 Act, together with the SEC's regulations and interpretations thereunder, impose substantive and material restrictions and requirements on the operations of advisers and mutual funds. The Securities Act and the Exchange Act, along with the regulations and interpretations thereunder, impose additional restrictions and requirements on mutual funds. The SEC is authorized to institute proceedings and impose sanctions for violations of those Acts, ranging from fines and censures to termination of an adviser's registration.

As an investment adviser, we have a fiduciary duty to our clients. The SEC has interpreted that duty to impose standards, requirements and limitations on, among other things: trading for proprietary, personal and client accounts; allocations of investment opportunities among clients; use of soft dollars; execution of transactions; and recommendations to clients. We manage accounts for our clients on a discretionary basis, with authority to buy and sell securities for each portfolio, select broker-dealers to execute trades, select counter-parties for principal transactions and negotiate counter-party compensation such as commissions and spreads. In connection with certain of these transactions, we receive soft dollar credits from broker-dealers that have the effect of reducing certain of our expenses. All of our soft dollar arrangements are intended to be within the safe harbor provided by Section 28(e) of the Exchange Act. If our ability to use soft dollars were reduced or eliminated as a result of a change in law or regulation or client pressure, our operating expenses would increase, potentially materially.

As a registered adviser, we are subject to many additional requirements that cover, among other things, disclosure of information about our business to clients; maintenance of written policies and procedures; maintenance of extensive books and records; restrictions on the types of fees we may charge; custody of client assets; client privacy; advertising; and solicitation of clients. The SEC has authority to, and typically does, inspect a registered adviser periodically to determine whether the adviser is conducting its activities (i) in accordance with applicable laws, (ii) in a manner that is consistent with disclosures made to clients and (iii) with adequate controls, systems and procedures to ensure compliance.

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For the year ended December 31, 2018, 61% of our revenues were derived from our advisory services to investment companies registered under the 1940 Act, including 59% from our advisory services to Artisan Funds. The 1940 Act imposes significant requirements and limitations on a registered fund, including with respect to its capital structure, investments and transactions. While we exercise broad discretion over the day-to-day management of the business and affairs of Artisan Funds and the investment portfolios of Artisan Funds and the funds we sub-advise, those operations are subject to oversight and management by each fund's board of directors. Under the 1940 Act, a majority of the directors must not be "interested persons" (sometimes referred to as the "independent director" requirement). The responsibilities of each fund's board include, among other things, approving our investment management agreement with the fund; approving other service providers; determining the method of valuing assets; and monitoring transactions involving affiliates.

Our investment management agreements with these funds may be terminated by the funds on minimal notice, and are subject to annual renewal by each fund's board after the initial term of one to two years. The 1940 Act also imposes on the investment adviser to a mutual fund a fiduciary duty with respect to the receipt of the adviser's investment management fees. That fiduciary duty may be enforced by the SEC, by administrative action or by litigation by investors in the fund pursuant to a private right of action.

As required by the Advisers Act, our investment management agreements may not be assigned without client consent. Under the 1940 Act, investment management agreements with registered funds (such as the mutual funds we manage) terminate automatically upon assignment. The term "assignment" is broadly defined and includes direct assignments as well as assignments that may be deemed to occur upon the transfer, directly or indirectly, of a controlling interest in us.

Artisan Partners Distributors LLC, our SEC-registered broker-dealer subsidiary, is subject to the SEC's Uniform Net Capital Rule and the National Securities Clearing Corporation's excess net capital requirement, which require that at least a minimum part of a registered broker-dealer's assets be kept in relatively liquid form.

Artisan Partners Limited Partnership is a fiduciary under ERISA with respect to assets that we manage for benefit plan clients subject to ERISA. ERISA, regulations promulgated thereunder and applicable provisions of the Internal Revenue Code impose certain duties on persons who are fiduciaries under ERISA, prohibit certain transactions involving ERISA plan clients and provide monetary penalties for violations of these prohibitions.

Non-U.S. Regulation

In addition to the extensive regulation we are subject to in the United States, a number of our subsidiaries and certain non-U.S. operations are subject to regulation in non-U.S. jurisdictions. One of our subsidiaries, Artisan Partners UK LLP, is authorized and regulated by the U.K. Financial Conduct Authority, which is responsible for the conduct of business and supervision of financial firms in the United Kingdom. The Central Bank of Ireland imposes requirements on UCITS funds subject to regulation by it, including Artisan Global Funds, as do the regulators in certain other markets in which shares of Artisan Global Funds are offered for sale, and with which we are required to comply. We are also subject to regulation internationally by the Australian Securities and Investments Commission, where we operate pursuant to orders of exemption, and by various Canadian regulatory authorities in the Canadian provinces where we operate pursuant to exemptions from registration. Our business is also subject to the rules and regulations of the countries in which we market our funds or services and conduct investment management activities, including the countries in which our investment strategies make investments.

We are currently in the process of establishing a subsidiary in Ireland, which we expect will carry out distribution efforts in the European Union following Brexit and which will be regulated by the Central Bank of Ireland.

We may become subject to additional regulatory demands in the future to the extent we expand our business in existing and new jurisdictions. See "Risk Factors—Risks Related to our Industry—We are subject to extensive regulation" and "Risk Factors—Risks Related to our Industry—The regulatory environment in which we operate is subject to continual change, and regulatory developments designed to increase oversight may adversely affect our business."

Competition

In order to grow our business, we must be able to compete effectively for assets under management. Historically, we have competed to attract clients and investors principally on the basis of:

- the performance of our investment strategies;
- continuity of our investment professionals;
- the quality of the service we provide to our clients; and
- our brand recognition and reputation within the investing community.

We compete in all aspects of our business with a large number of investment management firms, commercial banks, broker-dealers, insurance companies and other financial institutions. For additional information concerning the competitive risks that we face, see "Risks Factors—Risks Related to Our Industry—The investment management industry is intensely competitive."

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Operations, Systems and Technology

With respect to our equity strategies, we perform most middle- and back-office functions internally, generally using third-party software and technology for functions such as trade confirmation, trade settlement, custodian reconciliations, corporate action processing, performance calculation and client reporting, customized as necessary to support our investment processes and operations. With respect to our fixed income strategies, we outsource most of the middle- and back-office functions to service providers that we supervise. We have back-up and disaster recovery systems in place.

Employees

As of December 31, 2018, we employed approximately 425 full-time and part-time employees.

Our Structure and Reorganization

Holding Company Structure

We are a holding company and our assets principally consist of our ownership of partnership units of Artisan Partners Holdings, deferred tax assets and cash. As the sole general partner of Artisan Partners Holdings, we operate and control all of its business and affairs, subject to certain voting rights of its limited partners. We conduct all of our business activities through operating subsidiaries of Artisan Partners Holdings. Net profits and net losses are allocated based on the ownership of partnership units of Artisan Partners Holdings. As of December 31, 2018, we owned approximately 70% of Artisan Partners Holdings, and the other 30% was owned by the limited partners of Artisan Partners Holdings.

IPO Reorganization

In March 2013, we completed our IPO. In connection with the IPO, we and Artisan Partners Holdings completed a series of reorganization transactions, which we refer to as the IPO Reorganization, in order to reorganize our capital structures in preparation for the IPO. The IPO Reorganization included, among other changes, the following:

- Our appointment as the sole general partner of Artisan Partners Holdings.
- The modification of our capital structure into three classes of common stock and a series of convertible preferred stock. We issued shares of our Class B common stock, Class C common stock and convertible preferred stock to pre-IPO partners of Artisan Partners Holdings. Each share of Class B common stock corresponds to a Class B common unit of Artisan Partners Holdings. Each share of Class C common stock corresponds to either a Class A, Class D or Class E common unit of Artisan Partners Holdings. Subject to certain restrictions, each common unit of Artisan Partners Holdings (together with the corresponding share of Class B or Class C common stock) is exchangeable for a share of our Class A common stock.
- A corporation ("H&F Corp") merged with and into Artisan Partners Asset Management, which we refer to in this document as the H&F Corp Merger. As consideration for the merger, the shareholder of H&F Corp received shares of our convertible preferred stock, contingent value rights, or CVRs, issued by Artisan Partners Asset Management and the right to receive an amount of cash. In November 2013, the CVRs issued by Artisan Partners Asset Management were terminated with no amounts paid or payable thereunder. In June 2014, the shareholder of H&F Corp converted all of its then-remaining shares of convertible preferred stock into shares of Class A common stock and sold those shares. We no longer have any outstanding shares of convertible preferred stock, and Artisan Partners Holdings no longer has any outstanding preferred units.
- The voting and certain other rights of each class of limited partnership units of Artisan Partners Holdings were modified. In addition, Artisan Partners Holdings separately issued CVRs to the holders of the preferred units. In November 2013, the CVRs issued by Artisan Partners Holdings were terminated with no amounts paid or payable thereunder.
- We entered into two tax receivable agreements ("TRAs"), one with a private equity fund (the "Pre-H&F Corp Merger Shareholder") and the other with each limited partner of Artisan Partners Holdings. Pursuant to the first TRA, APAM pays to the Pre-H&F Corp Merger Shareholder (or its assignees) a portion of certain tax benefits APAM realizes as a result of the H&F Corp Merger. Pursuant to the second TRA, APAM pays to current or former limited partners of Artisan Partners Holdings (or their assignees) a portion of certain tax benefits APAM realizes as a result of the purchase or exchange of their limited partnership units of Artisan Partners Holdings.

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The diagram below depicts our organizational structure as of December 31, 2018:

(1) Our employees to whom we have granted equity have entered into a stockholders agreement with respect to all shares of our common stock they have acquired from us and any shares they may acquire from us in the future, pursuant to which they granted an irrevocable voting proxy to a stockholders committee currently consisting of Eric R. Colson (Chairman and Chief Executive Officer), Charles J. Daley, Jr. (Chief Financial Officer) and Gregory K. Ramirez (Executive Vice President). The stockholders committee, by vote of a majority of its members, will determine the vote of all of the shares subject to the stockholders agreement. In addition to owning all of the shares of our Class B common stock, our employee-partners, together with our other employees, owned unvested restricted shares of our Class A common stock representing approximately 8% of our outstanding Class A common stock as of December 31, 2018.

(2) Each class of common units generally entitles its holders to the same economic and voting rights in Artisan Partners Holdings as each other class of common units, except that the Class E common units have no voting rights except as required by law.

Available Information

Our website address is www.artisanpartners.com. We make available free of charge through our website all of the materials we file or furnish with the SEC as soon as reasonably practicable after we electronically file or furnish such materials with the SEC. Information contained on our website is not part of, nor is it incorporated by reference into, this Form 10-K. The company was incorporated in Wisconsin on March 21, 2011 and converted to a Delaware corporation on October 29, 2012.

Item 1A. Risk Factors

An investment in our Class A common stock involves substantial risks and uncertainties. You should carefully consider each of the risks below, together with all of the other information contained in this document, before deciding to invest in shares of our Class A common stock. If any of the following risks develops into an actual event, our business, financial condition or results of operations could be negatively affected, the market price of your shares could decline and you could lose all or part of your investment.

Risks Related to our Business

The loss of key investment professionals or members of our senior management team could have a material adverse effect on our business.

We depend on the skills and expertise of our portfolio managers and other investment professionals and our success depends on our ability to retain the key members of our investment teams, who possess substantial experience in investing and have been primarily responsible for the historically strong investment performance we have achieved. Mark L. Yockey is the sole portfolio manager for our largest strategy, the Non-U.S. Growth strategy, which represented $21.2 billion, or 22%, of our assets under management as of December 31, 2018. Charles-Henri Hamker and Andrew J. Euretig are associate portfolio managers of the Non-U.S. Growth strategy. Our Non-U.S. Value strategy, which represented $17.7 billion, or 18%, of our assets under management as of December 31, 2018, is managed by N. David Samra (lead manager), Ian P. McGonigle (co-portfolio manager) and Joseph Vari (co-portfolio manager). Our Global Value strategy, which represented $17.1 billion, or 18%, of our assets under management as of December 31, 2018, is managed by Daniel J. O’Keefe (lead manager), Justin V. Bandy (co-portfolio manager) and Michael J. McKinnon (co-portfolio manager). James D. Hamel, Matthew A. Kamm, Craigh A. Cepukenas and Jason White are portfolio co-managers of our U.S. Mid-Cap Growth (of which Mr. Kamm is lead manager) and Global Opportunities (of which Mr. Hamel is lead manager) strategies, which represented $9.1 billion, or 9%, and $14.7 billion, or 15%, respectively, of our assets under management as of December 31, 2018. The U.S. Mid-Cap Value strategy, of which James C. Kieffer, Thomas A. Reynolds, Daniel L. Kane, and Craig Inman are co-managers, represented $4.4 billion, or 5%, of our assets under management as of December 31, 2018.

Because of the long tenure and stability of many of our portfolio managers, our clients generally attribute the investment performance we have achieved to these individuals. The departure of a portfolio manager, even for strategies with multiple portfolio managers, could cause clients to withdraw funds from the strategy which would reduce our assets under management, investment management fees and our net income, and these reductions could be material if our assets under management in that strategy and the related revenues were material. The departure of a portfolio manager also could cause consultants and intermediaries to stop recommending a strategy, and clients to refrain from allocating additional funds to a strategy or delay such additional funds until a sufficient new track record has been established.

We also depend on the contributions of our senior management team led by Eric R. Colson, and our senior marketing and client service personnel who have direct contact with our institutional clients, consultants, intermediaries and other key individuals within each of our distribution channels.

The loss of any of these key professionals could limit our ability to successfully execute our business strategy and may prevent us from sustaining the historically strong investment performance we have achieved or adversely affect our ability to retain existing and attract new client assets and related revenues.

Any of our investment or management professionals may resign at any time, join our competitors or form a competing company. Although many of our portfolio managers and each of our named executive officers are subject to post-employment non-compete obligations, these non-competition provisions may not be enforceable or may not be enforceable to their full extent. In addition, we may agree to waive non-competition provisions or other restrictive covenants applicable to former investment or management professionals in light of the circumstances surrounding their relationship with us. We do not carry “key man” insurance that would provide us with proceeds in the event of the death or disability of any of the key members of our investment or management teams.

Competition for qualified investment, management and marketing and client service professionals is intense and we may fail to successfully attract and retain qualified personnel in the future. Our ability to attract and retain these personnel will depend heavily on the amount and structure of compensation and opportunities for equity ownership we offer. Any cost-reduction initiative or adjustments or reductions to compensation or changes to our equity ownership culture could negatively impact our ability to retain key personnel. As the amount of equity held by our key personnel decreases, our ability to retain these employees may be negatively impacted. Changes to our management structure, corporate culture and corporate governance arrangements could also negatively impact our ability to retain key personnel.

If we are unable to maintain or evolve our investment environment or compensation structures in a way that attracts, develops and retains talented investment professionals, there could be a negative impact to the performance of our investment strategies, our financial results and our ability to grow. In addition, our efforts to maintain and evolve our investment environment and compensation structures could themselves cause instability within our existing investment teams and/or negatively impact our financial results and ability to grow.

Attracting, developing and retaining talented investment professionals is an essential component of our business strategy. To do so, it is critical that we continue to foster an environment and provide compensation that is attractive for our existing investment professionals and for prospective investment professionals. If we are unsuccessful in maintaining such an environment (for instance, because of changes in management structure, corporate culture, corporate governance arrangements, or applicable laws and regulations) or compensation levels or structures for any reason, our existing investment professionals may leave our firm or fail to produce their best work on a consistent, long-term basis and/or we may be unsuccessful in attracting talented new investment professionals, any of which could negatively impact the performance of our investment strategies, our financial results and our ability to grow.

Over our firm's history we have sought to successfully design and implement compensation structures that align our investment professionals' economic interests with those of our clients, investors, partners, and shareholders. We believe our historical structures have been important to our long-term growth and that objective, predictable, and transparent structures work best to incentivize investment professionals to perform over the long-term.

With respect to asset-based revenues, we use a single revenue share arrangement across all of our investment teams. Under the revenue share, each team shares a bonus pool consisting of 25% of the asset-based revenues earned by the strategies managed by the respective team. The revenue share directly links the majority of the investment teams' cash compensation to long-term growth in revenues, which, over the long-term, we believe is primarily linked to investment performance. The revenue share is objective, predictable, transparent, and the same for all teams. In addition, each team is generally entitled to a share of performance-based revenues earned by the strategies managed by the team. In the future, we expect that performance fees will represent a higher proportion of our total revenues.

Over our firm's history we have used a variety of equity incentives to align the long-term interests of our investment professionals and other senior personnel with the interests of clients, investors, partners and shareholders. Until our IPO in 2013, firm equity awards were in the form of partnership profits interests, which entitled recipients to a percentage of future profits and future appreciation in the value of the firm. Award recipients had the right to cash out their profits interests only after the end of their careers, and 50% of the awards were subject to forfeiture if the recipient left Artisan without notice or was terminated. Prior to the IPO Reorganization, the profits interests were converted into partnership units and, as part of the IPO Reorganization, the 50% forfeiture feature was eliminated and employee-partners were given the right to liquidate a portion of their partnership units during each year that they remained employed with Artisan. At the time of our IPO, the partnership units held by employee-partners represented 53% of the ownership interests in our firm. At the time of this report, the partnership units held by employee-partners represented approximately 11% of the ownership interests in our firm.

After our IPO, our equity incentives have been in the form of APAM restricted stock awards. Initially, 100% of the restricted stock awards were Standard Restricted Shares vesting pro rata over five years from the date of grant. In 2014, as we continued to evolve our equity incentives, we introduced Career Shares, which are restricted stock awards that, in general, remain subject to forfeiture until the recipient's qualifying retirement, death, disability or a change in control. For these purposes, a qualifying retirement generally requires that the employee have provided ten years of service or more at the date of retirement and offered one year's written notice (or eighteen months' written notice in the case of employees who are portfolio managers or executive officers) of the intention to retire, subject to our right to accept a shorter period of notice. Prior to February 2019, the eighteen months' written notice requirement was three years, subject to the Company's discretion to waive the period to no less than one year. In general, since 2014, excluding sign-on or walk away awards, approximately 50% of the awards we have made to our senior employees have been Career Shares, and the other 50% Standard Restricted Shares.

Unlike our pre-IPO profits interests, the APAM restricted stock awards are "full value" awards (as opposed to "option-style" awards) and the Standard Restricted Shares provide recipients with liquidity prior to the end of their careers. The percentage ownership in our firm represented by the newly granted restricted stock each year is less than the percentage ownership represented by the partnership units that employee-partners may exchange and sell each year. Therefore, the amount of our firm owned by employees, including our portfolio managers, is expected to continue to decline.

As we have since our founding, we continue to assess the effectiveness of our compensation arrangements and equity structures in aligning the long-term interests of our investment professionals, clients, investors, partners, and shareholders and whether different types of, or modified, awards or structures would enhance incentives for long-term growth and succession planning. In 2019, pending completion of final documentation, we introduced Franchise Shares for our investment professionals. Franchise Shares are identical to career awards, except with respect to the Franchise Protection Clause, which applies to current or future portfolio managers. The Franchise Protection Clause provides that the total number of franchise awards ultimately vesting will be reduced to the extent that cumulative net client cash outflows from the portfolio manager's investment team during a 3-year measurement period beginning on the date of the portfolio manager's retirement notice exceeds a set threshold.

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The implementation of new or modified compensation arrangements or equity structures could cause instability within our existing investment teams and/or impact our ability to attract and retain new investment talent. As with our historical and current equity compensation programs, any future or modified equity structure could materially impact our financial performance and financial results (or expectations about our future financial performance and financial results) and result in dilution to other shareholders.

If our investment strategies perform poorly, clients could withdraw their funds and we could suffer a decline in our assets under management and/or become subject to litigation, which would reduce our earnings.

The performance of our investment strategies is critical in retaining existing client assets as well as attracting new client assets. If our investment strategies perform poorly for any reason, our earnings could decline because:

- Our existing clients may withdraw funds from our investment strategies or terminate their relationships with us.
- Third-party financial intermediaries, advisors or consultants may remove our investment products from recommended lists due to poor performance or for other reasons, which may lead our existing clients to withdraw funds from our investment strategies or reduce asset inflows from these third parties or their clients.
- The Morningstar and Lipper ratings and rankings of mutual funds we manage may decline, which may adversely affect the ability of those funds to attract new or retain existing assets.

Our investment strategies can perform poorly for a number of reasons, including general market conditions; investor sentiment about market and economic conditions; investment styles and philosophies; investment decisions; the performance of the companies in which our investment strategies invest and the currencies in which those investments are made; the liquidity of securities or instruments in which our investment strategies invest; and our inability to identify sufficient appropriate investment opportunities for existing and new client assets on a timely basis. In addition, while we seek to deliver long-term value to our clients, volatility may lead to under-performance in the near term, which could adversely affect our results of operations.

In contrast, when our strategies experience strong results relative to the market, clients' allocations to our strategies typically increase relative to their other investments and we sometimes experience withdrawals as our clients rebalance their investments to fit their asset allocation preferences despite our strong results.

While clients do not have legal recourse against us solely on the basis of poor investment results, if our investment strategies perform poorly, we are more likely to become subject to litigation brought by dissatisfied clients. In addition, to the extent clients are successful in claiming that their losses resulted from fraud, negligence, willful misconduct, breach of contract or other similar misconduct, these clients may have remedies against us, the mutual funds and other funds we advise and/or our investment professionals under various U.S. and non-U.S. laws.

The historical returns of our existing investment strategies may not be indicative of their future results or of the investment strategies we may develop in the future.

The historical returns of our strategies and the ratings and rankings we or the mutual funds that we advise have received in the past may not be indicative of the future results of these strategies or of any other strategies that we may develop in the future. The investment performance we achieve for our clients varies over time and the variance can be wide. The ratings and rankings we or the mutual funds we advise have received are typically revised monthly. Our strategies' returns have benefited during some periods from investment opportunities and positive economic and market conditions. In other periods, general economic and market conditions have negatively affected investment opportunities and our strategies' returns. These negative conditions may occur again, and in the future we may not be able to identify and invest in profitable investment opportunities within our current or future strategies.

Difficult market conditions can adversely affect our business in many ways, including by reducing the value of our assets under management and causing clients to withdraw funds, each of which could materially reduce our revenues and adversely affect our financial condition.

The fees we earn under our investment management agreements are typically based on the market value of our assets under management, and to a much lesser extent based directly on investment performance. Investors in the mutual funds we advise can redeem their investments in those funds at any time without prior notice and our clients may reduce the aggregate amount of assets under management with us with minimal or no notice for any reason, including financial market conditions and the absolute or relative investment performance we achieve for our clients. In addition, the prices of the securities held in the portfolios we manage may decline due to any number of factors beyond our control, including, among others, a declining market, general economic downturn, political uncertainty or acts of terrorism. In connection with the severe market dislocations of 2008 and 2009, for example, the value of our assets under management declined substantially due primarily to the sizeable decline in stock prices worldwide. In the period from June 30, 2008 through March 31, 2009, our assets under management decreased by approximately 43%, primarily as a result of general market conditions. More recently, during the fourth quarter of 2018, our assets under management declined by 17% due to market conditions and $4.9 billion of net client cash outflows.

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The growth of our assets under management since 2009 has benefited from the prolonged bull market in equity securities around the world. That prolonged bull market may increase the likelihood of a severe or prolonged downturn in world-wide equity prices which would directly reduce the value of our assets under management and could also accelerate client redemptions or withdrawals. If any of these factors cause a decline in our assets under management, it would result in lower investment management fees. If our revenues decline without a commensurate reduction in our expenses, our net income will be reduced.

The significant growth we have experienced over the past decade has been and may continue to be difficult to sustain.

Our assets under management increased from $30.6 billion as of December 31, 2008 to $96.2 billion as of December 31, 2018. The absolute measure of our assets under management represents a significant rate of growth that has been and may continue to be difficult to sustain. For instance, between September 30, 2018, and December 31, 2018, our assets under management declined from $116.6 billion to $96.2 billion. The continued long-term growth of our business will depend on, among other things, retaining key investment professionals, attracting and recruiting new investment professionals, maintaining existing investment strategies, selectively developing new, value-added investment strategies and the existence of market conditions in which our strategies are in demand. Our business growth will also depend on our success in achieving superior investment performance from our investment strategies, as well as our ability to maintain and extend our distribution capabilities, to deal with changing market conditions, to maintain adequate financial and business controls and to comply with new legal and regulatory requirements arising in response to both the increased sophistication of the investment management industry and the significant market and economic events of the last decade. We may not be able to manage our growing business effectively or be able to sustain the level of long-term growth we have achieved historically.

Our efforts to establish and develop new teams and strategies may be unsuccessful, which would likely negatively impact our results of operations and could negatively impact our reputation and culture.

We seek to add new investment teams that invest in a way that is consistent with our philosophy of offering high value-added investment strategies and would allow us to grow strategically. We also look to offer new strategies managed by our existing teams. We expect the costs associated with establishing a new team and/or strategy initially to exceed the revenues generated, which will likely negatively impact our results of operations. New strategies, whether managed by a new team or by an existing team may invest in instruments (such as certain types of derivatives) or present operational (including legal and regulatory) or distribution-related issues and risks with which we have little or no experience. Our lack of experience could strain our resources and increase the likelihood of an error or failure. The establishment of new teams and/or strategies (in particular, alternative investment teams or strategies) may also cause us to depart from our traditional compensation and economic model, which could reduce our profitability and harm our firm’s culture.

In addition, the historical returns of our existing investment strategies may not be indicative of the investment performance of any new strategy and new strategies may have higher performance expectations that are more difficult to meet. Poor performance of any new strategy could negatively impact our reputation and the reputation of our other investment strategies.

We generally support the development of new strategies by making one or more seed investments using capital that would otherwise be available for our general corporate purposes. Making such seed investments exposes us to capital losses.

Failure to properly address conflicts of interest could harm our reputation or cause clients to withdraw funds, each of which could adversely affect our business and results of operations.

The SEC and other regulators have increased their scrutiny of potential conflicts of interest, and we have implemented procedures and controls that we believe are reasonably designed to address these issues. However, appropriately dealing with conflicts of interest is complex and if we fail, or appear to fail, to deal appropriately with conflicts of interest, we could face reputational damage, litigation or regulatory proceedings or penalties, any of which may adversely affect our results of operations.

In addition, as we expand the scope of our business and our client base, we must continue to monitor and address any conflicts between the interests of our stockholders and those of our clients. Our clients may withdraw funds if they perceive conflicts of interest between the investment decisions we make for strategies in which they have invested and our obligations to our stockholders. For example, we may limit the growth of assets in or close strategies or otherwise take action to slow the flow of assets when we believe it is in the best interest of our clients even though our aggregate assets under management and investment management fees may be negatively impacted in the short term. Similarly, we may establish new investment teams or strategies or expand operations into other geographic areas or jurisdictions if we believe such actions are in the best interest of our clients, even though our profitability may be adversely affected in the short term. Although we believe such actions enable us to retain client assets and maintain our profitability, which benefits both our clients and stockholders, if clients perceive a change in our investment or operations decisions in favor of a strategy to maximize short term results, they may withdraw funds, which could adversely affect our investment management fees.

Several of our investment strategies invest principally in the securities of non-U.S. companies, which involve foreign currency exchange, tax, political, social and economic uncertainties and risks.

As of December 31, 2018, approximately 54% of our assets under management were invested in strategies that primarily invest in securities of non-U.S. companies. In addition, some of our other strategies also invest on a more limited basis in securities of non-U.S. companies.

Approximately 48% of our assets under management were invested in securities denominated in currencies other than the U.S. dollar. Fluctuations in foreign currency exchange rates could negatively affect the returns of our clients who are invested in these strategies. In addition, an increase in the value of the U.S. dollar relative to non-U.S. currencies is likely to result in a decrease in the U.S. dollar value of our assets under management, which, in turn, would likely result in lower revenue and profits. See "Qualitative and Quantitative Disclosures Regarding Market Risk-Exchange Rate Risk" in Item 7A of this report for more information about exchange rate risk.

Investments in non-U.S. issuers may also be affected by tax positions taken in countries or regions in which we are invested as well as political, social and economic uncertainty. Declining tax revenues may cause governments to assert their ability to tax the local gains and/or income of foreign investors (including our clients), which could adversely affect clients' interests in investing outside their home markets. Many financial markets are not as developed, or as efficient, as the U.S. financial markets, and, as a result, those markets may have limited liquidity and higher price volatility, and may lack established regulations. Liquidity may also be adversely affected by political or economic events, government policies, and social or civil unrest within a particular country, and our ability to dispose of an investment may also be adversely affected if we increase the size of our investments in smaller non-U.S. issuers. Non-U.S. legal and regulatory environments, including financial accounting standards and practices, may also be different, and there may be less publicly available information about such companies. These risks could adversely affect the performance of our strategies that are invested in securities of non-U.S. issuers and may be particularly acute in the emerging or less developed markets in which we invest. In addition to our Emerging Markets and Developing World strategies, a number of our other investment strategies are permitted to invest, and do invest, in emerging or less developed markets.

We may not be able to maintain our current fee rates as a result of poor investment performance, competitive pressures, as a result of changes in our business mix or for other reasons, which could have a material adverse effect on our profit margins and results of operations.

We may not be able to maintain our current fee rates for any number of reasons, including as a result of poor investment performance, competitive pressures, changes in global markets and asset classes, or as a result of changes in our business mix. Although our investment management fees vary by client and investment strategy, we historically have been successful in maintaining an attractive overall rate of fee and profit margin due to the strength of our investment performance and our focus on high value-added investment strategies. In recent years, however, there has been a general trend toward lower fees in the investment management industry as a result of competition and regulatory and legal pressures. Some of our investment strategies that tend to invest in larger-capitalization companies and were designed to have larger capacity have lower fee schedules. In order to maintain our fee structure in a competitive environment, we must retain the ability to decline additional assets to manage from potential clients who demand lower fees even though our revenues may be adversely affected in the short term. In addition, we must be able to continue to provide clients with investment returns and service that our clients believe justify our fees.

We may be forced to lower our fees in order to retain current, and attract additional, assets to manage. We may also make fee concessions in order to attract early investors in a strategy or increase marketing momentum in a strategy. Downward pressure on fees may also result from the growth and evolution of the universe of potential investments in a market or asset class. Changes in how clients choose to access asset management services may also exert downward pressure on fees. Some investment consultants, for example, have implemented programs in which the consultant provides a range of services, including selection, in a fiduciary capacity, of asset managers to serve as sub-adviser at lower fee rates than the manager's otherwise applicable rates, with the expectation of a larger amount of assets under management through that consultant. The expansion of those and similar programs could, over time, make it more difficult for us to maintain our fee rates. Over time, a larger part of our assets under management could be invested in our larger capacity, lower fee strategies, which could adversely affect our profitability. In addition, plan sponsors of 401(k) and other defined contribution assets that we manage may choose to invest plan assets in vehicles with lower cost structures than mutual funds (such as a collective investment trust, if one is available) or may choose to access our services through a separate account. We provide a lesser array of services to collective investment trusts and separate accounts than we provide to Artisan Funds and we receive fees at lower rates.

The investment management agreements pursuant to which we advise mutual funds are terminable on short notice and, after an initial term, are subject to an annual process of review and renewal by the funds' boards. As part of that annual review process, the fund board considers, among other things, the level of compensation that the fund has been paying us for our services. That process may result in the renegotiation of our fee structure or increase the cost of our performance of our obligations. Any fee reductions on existing or future new business could have an adverse effect on our profit margins and results of operations.

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We derive substantially all of our revenues from contracts and relationships that may be terminated upon short or no notice.

We derive substantially all of our revenues from investment advisory and sub-advisory agreements, all of which are terminable by clients upon short notice or no notice. Our investment management agreements with mutual funds, as required by law, are generally terminable by the funds' boards or a vote of a majority of the funds' outstanding voting securities on not more than 60 days' written notice. After an initial term, each fund's investment management agreement must be approved and renewed annually by that fund's board, including by its independent members. In addition, all of our separate account clients and some of the mutual funds that we sub-advise have the ability to re-allocate all or any portion of the assets that we manage away from us at any time with little or no notice. These investment management agreements and client relationships may be terminated or not renewed for any number of reasons. The decrease in revenues that could result from the termination of a material client relationship or group of client relationships could have a material adverse effect on our business.

Investors in most of the pooled vehicles that we advise can redeem their investments in those funds at any time without prior notice, which could adversely affect our earnings.

Investors in the mutual funds, UCITS, and some other pooled investment vehicles that we advise or sub-advise may redeem their investments in those funds at any time without prior notice and investors in other types of pooled vehicles we advise or sub-advise may typically redeem their investments on fairly limited prior notice, thereby reducing our assets under management. These investors may redeem for any number of reasons, including general financial market conditions, the absolute or relative investment performance we have achieved, or their own financial condition and requirements. In a declining stock market, the pace of redemptions could accelerate. Poor investment performance tends to result in decreased purchases and increased redemptions. For the year ended December 31, 2018, we generated approximately 81% of our revenues from advising mutual funds and other pooled vehicles (including Artisan Funds, Artisan Global Funds, Artisan Private Funds, and other entities for which we are adviser or sub-adviser), and the redemption of investments in those funds would adversely affect our revenues and could have a material adverse effect on our earnings.

We depend on third parties to market our investment strategies.

Our ability to attract additional assets to manage is highly dependent on our access to third-party intermediaries. We gain access to investors primarily through consultants, 401(k) platforms, mutual fund platforms, broker-dealers and financial advisors through which shares of the funds are sold. We have relationships with some third-party intermediaries through which we access clients in multiple distribution channels. Our two largest relationships across multiple distribution channels represented approximately 9% and 8% of our total assets under management as of December 31, 2018.

We compensate most of the intermediaries through which we gain access to investors in Artisan Funds by paying fees, most of which are a percentage of assets invested in Artisan Funds through that intermediary and with respect to which that intermediary provides shareholder and administrative services. The allocation of such fees between us and Artisan Funds is determined by the board of Artisan Funds, based on information and a recommendation from us, with the goal of allocating to us, at a minimum, all costs attributable to marketing and distribution of shares of Artisan Funds.

In the future, our expenses in connection with those intermediary relationships could increase if the portion of those fees determined to be in connection with marketing and distribution, or otherwise allocated to us or payable by us, increased. In addition, as the fees described above have declined and consistent with the experience of other investment managers, we have seen increased requests from intermediaries for alternative forms of compensation, which could over time be material. Clients of these intermediaries may not continue to be accessible to us on terms we consider commercially reasonable, or at all. The absence of such access could have a material adverse effect on our results of operations.

We access institutional clients primarily through consultants. Our institutional business is highly dependent upon referrals from consultants. Many of these consultants review and evaluate our products and our firm from time to time. As of December 31, 2018, the investment consultant advising the largest portion of our assets under management represented approximately 9% of our total assets under management. Poor reviews or evaluations of either a particular strategy or us as an investment management firm may result in client withdrawals or may impair our ability to attract new assets through these consultants.

Substantially all of our existing assets under management are managed in long-only, equity investment strategies, which exposes us to greater risk than certain of our competitors who may manage significant amounts of assets in non-long only or non-equity strategies.

Fifteen of our 17 existing investment strategies invest primarily in publicly-traded equity securities. Our Credit team, which primarily invests in fixed income securities, manages the High Income strategy and the Credit Opportunities strategy. Together, these strategies accounted for only $2.9 billion of our $96.2 billion in total assets under management as of December 31, 2018. Under market conditions in which there is a general decline in the value of equity securities, the assets under management in each of our 15 equity strategies is likely to decline. The amount of assets that we manage in strategies that can take short positions in equity securities, which could offset some of the poor performance of our long-only, equity strategies under such market conditions, accounted for less than $1.0 billion of our total assets under management as of December 31, 2018. Even if our investment performance remains strong during such market conditions relative to other long-only, equity strategies, investors may choose to withdraw assets from our management or allocate a larger portion of their assets to non-long-only or non-equity

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strategies. In addition, the prices of equity securities may fluctuate more widely than the prices of other types of securities, making the level of our assets under management and related revenues more volatile.

Our failure to comply with investment guidelines set by our clients, including the boards of funds, and limitations imposed by applicable law, could result in damage awards against us and a loss of our assets under management, either of which could adversely affect our results of operations or financial condition.

When clients retain us to manage assets on their behalf, they generally specify certain guidelines regarding investment allocation and strategy that we are required to follow in managing their portfolios. The boards of funds we manage generally establish similar guidelines regarding the investment of assets in those funds. In general, over the long-term, we have experienced an increase in client-imposed guidelines. We are also required to invest U.S. mutual funds' assets in accordance with limitations under the 1940 Act and applicable provisions of the Internal Revenue Code of 1986, as amended, or the Internal Revenue Code. Other clients, such as plans subject to the Employee Retirement Income Security Act of 1974, as amended, or ERISA, or non-U.S. clients (including Artisan Global Funds), require us to invest their assets in accordance with applicable law. Our failure to comply with any of these guidelines and other limitations could result in losses to clients or investors in a fund which, depending on the circumstances, could result in our obligation to reimburse clients or fund investors for such losses. If we believed that the circumstances did not justify a reimbursement, or clients and investors believed the reimbursement we offered was insufficient, they could seek to recover damages from us or could withdraw assets from our management or terminate their investment management agreement with us. Any of these events could harm our reputation and adversely affect our business.

Operational risks may disrupt our business, result in losses or limit our growth.

We are heavily dependent on the capacity and reliability of the communications, information and technology systems supporting our operations, whether developed, owned and operated by us or by third parties. We also rely on manual workflows and a variety of manual user controls. Operational risks such as trading or other operational errors or interruption of our financial, accounting, trading, compliance and other data processing systems, whether caused by human error, fire, other natural disaster or pandemic, power or telecommunications failure, cyber-attack or viruses, act of terrorism or war or otherwise, could result in a disruption of our business, liability to clients, regulatory intervention or reputational damage, and thus materially adversely affect our business. The potential for some types of operational risks, including, for example, trading errors, may be increased in periods of increased volatility, which can magnify the cost of an error. Although we have not suffered material operational errors, including material trading errors, in the past, we may experience such errors in the future, the losses related to which we would absorb. Insurance and other safeguards might not be available or might only partially reimburse us for our losses.

Although we have back-up systems in place, our back-up procedures and capabilities in the event of a failure or interruption may not be adequate, and the fact that we operate our business out of multiple physical locations may make such failures and interruptions difficult to address on a timely and adequate basis. As our client base, number and complexity of investment strategies, client relationships and/or physical locations increase, and as our employees become increasingly mobile, developing and maintaining our operational systems and infrastructure may become increasingly challenging.

Any changes, upgrades or expansions to our operations and/or technology or implementation of new technology systems to replace manual workflows or to accommodate increased volumes or complexity of transactions or otherwise may require significant expenditures and may increase the probability that we will experience operational errors or suffer system degradations and failures. If we are unsuccessful in executing upgrades, expansions or implementations, we may instead have to hire additional employees, which could increase operational risk due to human error.

We depend substantially on our Milwaukee, Wisconsin offices, where a majority of our employees, administration and technology resources are located, for the continued operation of our business. Any significant disruption to those offices could have a material adverse effect on us. We also depend on a number of key vendors for trading, middle- and back-office functions, various fund administration, accounting, custody and transfer agent roles and other operational needs. The failure of any key vendor to fulfill its obligations could result in financial losses for us and/or our clients.

Our operational systems and networks are subject to evolving cybersecurity or other technological risks, which could result in the disclosure of confidential client information, loss of our proprietary information, business interruptions, damage to our reputation, additional costs to us, regulatory penalties and other adverse impacts.

We are heavily reliant upon internal and third party technology systems and networks to view, process, transmit and store information, including sensitive client and proprietary information, and to conduct many of our business activities and transactions with our clients, vendors/service providers (collectively, "vendors") and other third parties. Maintaining the integrity of these systems and networks is critical to the success of our business operations. We take measures to protect our proprietary information and our clients' information pursuant to our internal policies and data protection regulations to which we're subject. We rely on our (and our vendors') information and cybersecurity infrastructure, policies, procedures and capabilities to protect those systems and the data that reside on or are transmitted through them. We maintain a system of internal controls designed to provide reasonable assurance that fraudulent activity, including misappropriation of assets, fraudulent financial reporting, and unauthorized access to sensitive or confidential data is either prevented or detected in a timely manner.

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We also strive to understand the protective measures of our vendors and ensure that we have complementary user controls in place to mitigate risk. To date, we have not experienced any known material breaches of or interference with our systems and networks; however, we routinely encounter and address such threats. Our experiences with and preparation for cybersecurity and technology threats have included phishing scams, introductions of malware, attempts at electronic break-ins, and unauthorized payment requests. Any such breaches or interference that may occur in the future could have a material adverse impact on our business, financial condition or results of operations.

We are subject to international, federal and state regulations, and in some cases contractual obligations, that require us to establish and maintain policies and procedures designed to protect sensitive client, employee, contractor and vendor information. The increasing reliance on technology systems and networks and the occurrence and potential adverse impact of attacks on such systems and networks, both generally and in the financial services industry in particular, have enhanced government and regulatory scrutiny of the measures taken by companies to protect against cybersecurity threats. As these threats, and government and regulatory oversight of associated risks, continue to evolve, we may be required to expend additional resources to enhance or expand upon the security measures we currently maintain.

Despite the measures we have taken and may in the future take to address and mitigate cybersecurity and technology risks, we cannot guarantee that our systems and networks will not be subject to breaches or interference. For example, although we take precautions to password protect and encrypt our mobile electronic devices, if such devices are stolen or misplaced, they may become vulnerable to hacking or other unauthorized use, creating a possible security risk. Any such event may result in operational disruptions as well as unauthorized access to or the disclosure, corruption or loss of our proprietary information or our clients' or employees' information, which in turn may result in legal claims, regulatory scrutiny and liability, reputational damage, the incurrence of costs to eliminate or mitigate further exposure, or the loss of clients or other damage to our business. In addition, any required public notification of such incidents could exacerbate the harm to our business, financial condition or results of operations. Even if we successfully protect our technology infrastructure and the confidentiality of sensitive data, we may incur significant expenses in connection with our responses to any such attacks and the adoption and maintenance of additional appropriate security measures. We cannot be certain that advances in criminal capabilities, discovery of new vulnerabilities, attempts to exploit vulnerabilities in our or our vendors' systems, data thefts, physical system or network break-ins or inappropriate access, or other developments will not compromise or breach the technology or other security measures protecting the networks and systems we use.

Our newest investment strategies and strategies we may establish in the future present certain investment, operational, distribution and other risks that are different in kind and/or degree from those presented by our earlier investment strategies, and we have less experience with those risks.

In 2014, prior to establishing the High Income strategy, we developed and contracted with third parties for, the operational infrastructure and systems necessary to operate a fixed income strategy, including infrastructure and systems for trading and valuing fixed income securities and other credit instruments. Prior to the launch of the High Income strategy, we had not operated a fixed income strategy. During 2017, we established our second fixed income strategy, the Credit Opportunities strategy. Our fixed income strategies primarily invest in securities and instruments (such as high yield corporate bonds, secured and unsecured loans, revolving credit facilities and loan participations) and certain derivative securities (such as credit default swaps and futures) with which we previously had no or limited operational experience. The below-investment-grade instruments in which the strategies invest and the debtors to which the strategies are exposed present different risks and/or degrees of risk (including liquidity and legal risks) than our other strategies, which invest primarily in publicly-traded equity securities. In particular, the instruments in which the strategies invest may be less liquid than higher-rated bonds and are not as liquid as most of the publicly-traded equity securities in which our other strategies primarily invest. This potential lack of liquidity may make it more difficult for Artisan High Income Fund to accurately value these securities for purposes of determining the fund's net asset value per share and, under certain circumstances, may make it more difficult for the fund to manage redemption requests. In order to identify, monitor and mitigate our exposure to these new or increased risks, we implemented or modified a number of policies, procedures and systems and hired new individuals with relevant experience. However, neither the measures we have taken, nor the Credit team's investment decision-making and execution, can eliminate the risks associated with investing in the instruments described above. Any real or perceived problems with respect to our fixed income strategies (or any of our individual strategies) could negatively impact our reputation and business more generally.

During 2017 we established two strategies generally offered through private funds. Prior to the launch of those strategies, external investors had not invested in our strategies through private funds. Offering private funds presents new and different operational, regulatory and distribution-related risks. Establishing our private funds required that we engage new service providers for purposes of administration, operation and advice, with whom we had not previously had a relationship or with whom we only had a limited scope relationship, and build out new operational infrastructure and systems to support new processes, reporting and controls. Our private funds may invest in instruments (such as derivative securities) and engage in activities (such as shorting and the use of leverage) with which we previously had no or limited operational experience. These instruments and activities present different types and higher degrees of investment risk than our other investment strategies. In addition, our lack of experience with these instruments and activities could strain our resources and increase the likelihood of an error.

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Offering private funds also poses risks associated with side by side management and the potential for real or perceived conflicts of interest, which, if not managed correctly, could cause reputational damage, litigation or regulatory proceedings or penalties. We have created or modified a number of policies and procedures, brought in expertise from third party advisors, and implemented training programs in order to identify and mitigate exposure to these new risks. However, we are unable to eliminate the risks associated with offering private funds.

New investment strategies and investment vehicles that we establish in the future will likely present new and different investment, regulatory, operational, distribution and other risks than those presented by our existing strategies. Any real or perceived problems with future strategies or investment vehicles could cause a disproportionate negative impact on our business and reputation.

Employee misconduct, or perceived misconduct, could expose us to significant legal liability and/or reputational harm.

We are vulnerable to reputational harm because we operate in an industry in which integrity and the confidence of our clients are of critical importance. Our employees could engage in misconduct (such as fraud or unauthorized trading), or perceived misconduct, that adversely affects our business. For example, if an employee were to engage in illegal or suspicious activities, we could be subject to regulatory sanctions and suffer serious harm to our reputation (as a consequence of the negative perception resulting from such activities), financial position, client relationships and ability to attract new clients. Our business often requires that we deal with confidential information. If our employees were to improperly use or disclose this information, even if inadvertently we could suffer serious harm to our reputation, financial position and current and future business relationships. It is not always possible to deter employee misconduct, and the precautions we take to detect and prevent this activity may not always be effective. Misconduct or perceived misconduct by our employees, or even unsubstantiated allegations of such conduct, could result in significant legal liability and/or an adverse effect on our reputation and our business.

If our techniques for managing risk are ineffective, we may be exposed to material unanticipated losses.

In order to manage the significant risks inherent in our business, we must maintain effective policies, procedures and systems that enable us to identify, monitor and mitigate our exposure to operational, legal and reputational risks. Our risk management methods may prove to be ineffective due to their design or implementation, or as a result of the lack of adequate, accurate or timely information or otherwise. If our risk management efforts are ineffective, we could suffer losses that could have a material adverse effect on our financial condition or operating results. Additionally, we could be subject to litigation, particularly from our clients or investors, and sanctions or fines from regulators.

Our techniques for managing operational, legal and reputational risks in client portfolios may not fully mitigate the risk exposure in all economic or market environments, including exposure to risks that we might fail to identify or anticipate. Because our clients invest in our strategies in order to gain exposure to the portfolio securities of the respective strategies, we have not adopted corporate-level risk management policies to manage market, interest rate, or exchange rate risks that would affect the value of our overall assets under management.

Our indebtedness may expose us to material risks.

In August 2012, we entered into a $100 million five-year revolving credit agreement and issued $200 million in unsecured notes consisting of $60 million Series A notes that matured in 2017, $50 million Series B notes maturing in 2019, and $90 million Series C notes maturing in 2022. In August 2017, we issued $60 million of Series D notes maturing in 2025, 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 five-year revolving credit facility for an additional five-year period. As of December 31, 2018, no amounts were outstanding on the revolving credit facility. Nevertheless, we continue to have substantial indebtedness outstanding in the amount of $200 million in unsecured notes, which exposes us to risks associated with the use of leverage. Our substantial indebtedness may make it more difficult for us to withstand or respond to adverse or changing business, regulatory and economic conditions or to take advantage of new business opportunities or make necessary capital expenditures. In addition, our notes and revolving credit agreement contain financial and operating covenants that may limit our ability to conduct our business. To the extent we service our debt from our cash flow, such cash will not be available for our operations or other purposes. Because our debt service obligations are fixed, the portion of our cash flow used to service those obligations could be substantial if our revenues have declined, whether because of market declines or for other reasons. The Series B, Series C and Series D notes bear interest at a rate equal to 5.32%, 5.82% and 4.29% per annum, respectively, and each rate is subject to a 100 basis point increase in the event Artisan Partners Holdings receives a below-investment grade rating. Each series requires a balloon payment at maturity. Any substantial decrease in net operating cash flows or any substantial increase in expenses could make it difficult for us to meet our debt service requirements or force us to modify our operations. Our ability to repay the principal amount of our notes or any outstanding loans under our revolving credit agreement, to refinance our debt or to obtain additional financing through debt or the sale of additional equity securities will depend on our performance, as well as financial, business and other general economic factors affecting the credit and equity markets generally or our business in particular, many of which are beyond our control. Any such alternatives may not be available to us on satisfactory terms or at all.

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Our note purchase agreements and revolving credit agreement contain, and our future indebtedness may contain, various covenants that may limit our business activities.

Our note purchase agreements and revolving credit agreement contain financial and operating covenants that limit our business activities, including restrictions on our ability to incur additional indebtedness and pay dividends to our stockholders. For example, the agreements include financial covenants requiring Artisan Partners Holdings not to exceed specified ratios of indebtedness to consolidated earnings before interest, taxes, depreciation and amortization (as defined in the agreements), or EBITDA, and interest expense to consolidated EBITDA. The agreements also restrict Artisan Partners Holdings from making distributions to its partners (including us), other than tax distributions or distributions to fund our ordinary expenses, if a default (as defined in the respective agreements) has occurred and is continuing or would result from such a distribution. In addition, if Artisan's average assets under management for a fiscal quarter is below $45 billion, Holdings is generally required to offer to pre-pay the unsecured notes. The failure to comply with any of these restrictions could result in an event of default, giving our lenders the ability to accelerate repayment of our obligations. As of December 31, 2018, we believe we are in compliance with all of the covenants and other requirements set forth in the agreements.

We provide a range of services to Artisan Funds, Artisan Global Funds, Artisan Private Funds and sub-advised funds which may expose us to liability.

We provide a broad range of administrative services to Artisan Funds, including providing personnel to Artisan Funds to serve as a director and as officers of Artisan Funds and to serve on the valuation and liquidity committee of Artisan Funds, the preparation or supervision of the preparation of Artisan Funds' regulatory filings, maintenance of board calendars and preparation or supervision of the preparation of board meeting materials, management of compliance and regulatory matters, provision of shareholder services and communications, accounting services including the supervision of the activities of Artisan Funds' accounting services provider in the calculation of the funds' net asset values, supervision of the preparation of Artisan Funds' financial statements and coordination of the audits of those financial statements, tax services including calculation of dividend and distribution amounts and supervision of tax return preparation, and supervision of the work of Artisan Funds' other service providers. Although less extensive than the range of services we provide to Artisan Funds, we also provide a range of similar services, in addition to investment management services, to Artisan Global Funds and Artisan Private Funds, including personnel to serve as directors. In addition, from time to time we provide information to other funds we advise or sub-advise (or to a person or entity providing administrative services to such a fund) which may be used by those funds in their efforts to comply with various regulatory requirements.

The services we provide to Artisan Funds, Artisan Global Funds, Artisan Private Funds, and other funds may expose us to liability. For example, if we make a mistake in the provision of such services, a fund could incur costs for which we might be liable. In addition, if it were determined that a fund failed to comply with applicable regulatory requirements as a result of our action or our employees' failure to act, we could be responsible for losses suffered or penalties imposed. In addition, we could have penalties imposed on us, be required to pay fines or be subject to private litigation, any of which could decrease our future income or negatively affect our current business or our future growth prospects.

The expansion of our business inside and outside of the United States raises tax and regulatory risks, may adversely affect our profit margins and places additional demands on our resources and employees.

We have expanded and continue to expand our distribution efforts into non-U.S. markets, including the United Kingdom, other European countries, Canada, Australia and certain Middle Eastern, Asian, and African countries. We serve as investment manager of Artisan Global Funds, a family of Ireland-based UCITS funds, that began operations during the first quarter of 2011. Our client relationships outside the United States have grown from 32 as of December 31, 2012 to 131 as of December 31, 2018. Clients outside the United States may be adversely affected by political, social and economic uncertainty in their respective home countries and regions, which could result in a decrease in the net client cash flows that come from such clients. These clients also may be less accepting of the U.S. practice of payment for certain research products and services through soft dollars or such practices may not be permissible in some jurisdictions. The Markets in Financial Instruments Directive II ("MiFID II"), effective on January 3, 2018, regulates the use of soft dollars to pay for research and other soft dollar services. MiFID II's soft dollar rules do not directly apply to our business because we currently conduct our investment management activities in the United States. However, in response to MiFID II and the industry-wide changes it may prompt or a change in our operations, we may eventually bear a significant portion or all of the costs of research that are currently paid for using soft dollars, which would increase our operating expenses, potentially materially.

Our expansion inside and outside of the United States has required and will continue to require us to incur a number of up-front expenses, including those associated with obtaining and maintaining regulatory approvals and office space, as well as additional ongoing expenses, including those associated with leases, the employment of additional support staff and regulatory compliance. Our U.S.-based employees routinely travel inside and outside the United States as a part of our investment research process, to market our services and to supervise and manage our business and may spend time in one or more states or non-U.S. jurisdictions. Their activities in such states or non-U.S. jurisdictions on our behalf may raise both tax and regulatory issues. If and to the extent we are incorrect in our analysis of the applicability or impact of state or non-U.S. taxes or regulatory requirements, we could incur costs, penalties or be the subject of an enforcement or other action.

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Operating our business in non-U.S. markets is generally more expensive than in the United States. Among other expenses, the effective tax rates applicable to our income allocated to some non-U.S. markets may be higher than the effective rates applicable to our income allocated to the United States. In addition, costs related to our distribution and marketing efforts in non-U.S. markets have often been more expensive than comparable costs in the United States. To the extent that our revenues do not increase to the same degree our expenses increase in connection with our continuing expansion outside the United States, our profitability could be adversely affected. Expanding our business into non-U.S. markets may also place significant demands on our existing infrastructure and employees.

The U.K.'s exit from the European Union could affect our future operations in the U.K. and in the other countries of the European Union. Negotiations between the U.K. and the European Union are ongoing and, as a result, the terms of the impending separation remain unclear. We are currently in the process of establishing a subsidiary in Ireland which we expect will distribute our services in the European Union following Brexit and will be regulated by the Central Bank of Ireland. Brexit has added complexity and costs to our global operations and imposed additional risks. Moreover, it has led to regulatory changes and uncertainty and resulted in additional legal and compliance costs. However, we do not currently expect Brexit to have a major impact on our business.

Failure to maintain effective internal control over financial reporting could have a material adverse effect on our business and stock price.

As a public company, we are subject to a variety of reporting requirements under the Sarbanes-Oxley Act of 2002. Sarbanes-Oxley requires, among other things, that we maintain effective internal control over financial reporting. In accordance with Section 404 of Sarbanes-Oxley, our management is required to conduct an annual assessment of the effectiveness of our internal control over financial reporting and include a report on these internal controls in the annual reports we file with the SEC on Form 10-K. If we are not able to continue to comply with the requirements of Section 404 in a capable manner, we may be subject to adverse regulatory consequences and there could be a negative reaction in the financial markets due to a loss of investor confidence in us and the reliability of our financial statements. This could have a material adverse effect on us.

A change of control could result in termination of our investment advisory agreements with SEC-registered mutual funds and could trigger consent requirements in our other investment advisory agreements.

Under the U.S. Investment Company Act of 1940, as amended, or the 1940 Act, each of the investment advisory agreements between SEC-registered mutual funds and our subsidiary, Artisan Partners Limited Partnership, will terminate automatically in the event of its assignment, as defined in the 1940 Act.

Upon the occurrence of such an assignment, our subsidiary could continue to act as adviser to any such fund only if that fund's board and shareholders approved a new investment advisory agreement, except in the case of certain of the funds that we sub-advise for which only board approval would be necessary. In addition, as required by the U.S. Investment Advisers Act of 1940, as amended, or the Advisers Act, each of the investment advisory agreements for the separate accounts we manage provides that it may not be assigned, as defined in the Advisers Act, without the consent of the client. An assignment occurs under the 1940 Act and the Advisers Act if, among other things, Artisan Partners Limited Partnership undergoes a change of control as recognized under the 1940 Act and the Advisers Act. If such an assignment were to occur, we cannot be certain that we will be able to obtain the necessary approvals from the boards and shareholders of the mutual funds we advise or the necessary consents from our separate account clients.

Risks Related to our Industry

We are subject to extensive regulation.

We are subject to extensive regulation in the United States, primarily at the federal level, including regulation by the SEC under the 1940 Act and the Advisers Act, by the U.S. Department of Labor under ERISA, and by the Financial Industry Regulatory Authority. The U.S. mutual funds we manage are registered with and regulated by the SEC as investment companies under the 1940 Act. The Advisers Act imposes numerous obligations on investment advisers including record keeping, advertising and operating requirements, disclosure obligations and prohibitions on fraudulent activities. The 1940 Act imposes similar obligations, as well as additional detailed operational requirements, on registered investment companies, which must be adhered to by their investment advisers.

We have expanded and continue to expand our distribution effort into non-U.S. markets, including the United Kingdom, other European countries, Canada, Australia and certain Middle Eastern, African and Asian countries, among others. As a result of our activities in the United Kingdom, we are subject to regulation by the U.K. Financial Conduct Authority, which imposes a comprehensive system of regulation that is primarily principles-based (compared to the primarily rules-based U.S. regulatory system). As investment manager of Artisan Global Funds, we are subject to regulation by the Central Bank of Ireland which imposes requirements on Ireland-based UCITS funds. We are also subject to regulation in certain other markets in which shares of Artisan Global Funds are offered for sale. Certain Artisan Private Funds are regulated as mutual funds under the Mutual Funds Law (as amended) of the Cayman Islands, and the Cayman Islands Monetary Authority has supervisory and enforcement powers to ensure the funds' compliance with the Mutual Funds Law.

We are also subject to the requirements of the Australian Securities and Investments Commission, where we operate pursuant to an order of exemption, and of the Canadian regulatory authorities in the Canadian provinces where we operate pursuant to exemptions from registration. In addition, we are currently in the process of establishing a subsidiary in Ireland, which will be regulated by the Central Bank of Ireland.

Our business is also subject to the rules and regulations of other countries in which we conduct distribution, marketing and investment management activities. Failure to comply with applicable laws and regulations (including private placement regimes) in the foreign countries where we invest and/or where our clients or prospective clients reside could result in a wide range of penalties and disciplinary actions, including fines, suspensions of personnel, revocations of authorizations, or other sanctions. The requirements imposed by these regulators are designed to ensure the integrity of the financial markets and to protect customers and other third parties who deal with us, and are not designed to protect our stockholders. Consequently, these regulations often serve to limit our activities.

In the future, we may further expand our business outside of the United States in such a way or to such an extent that we may be required to register with additional foreign regulatory agencies or otherwise comply with additional non-U.S. laws and regulations that do not currently apply to us and with respect to which we do not have compliance experience. Our lack of experience in complying with any such non-U.S. laws and regulations may increase our risk of becoming party to litigation and/or subject to regulatory actions.

As a result of the extensive and complex regulatory environment in which we operate, we face risk of regulatory actions and litigation. While we have focused significant attention and resources on the development and implementation of compliance policies, procedures and practices, non-compliance with applicable laws, rules or regulations, either in the U.S. or abroad could result in sanctions against us, which could adversely affect our reputation and business.

The regulatory environment in which we operate is subject to continual change, and regulatory developments may adversely affect our business.

We operate in a legislative and regulatory environment that is subject to continual change, the nature of which we cannot predict. We may be adversely affected as a result of new or revised legislation or regulations imposed by the SEC, other U.S. or non-U.S. governmental regulatory authorities or self-regulatory organizations that supervise the financial markets. We also may be adversely affected by changes in the interpretation or enforcement of existing laws and rules by these governmental authorities and self-regulatory organizations, as well as by courts. It is impossible to determine the extent of the impact of any new U.S. or non-U.S. laws, regulations or initiatives that may be proposed, or whether any of the proposals will become law. Compliance with any new laws or regulations, or changes in the interpretation or enforcement of existing laws or regulations, could be more difficult and expensive and affect the manner in which we conduct business.

Our ability to function in this frequently changing regulatory environment will depend on our ability to constantly monitor and promptly react to legislative and regulatory changes. There have been a number of highly publicized regulatory inquiries that have focused on the investment management industry. These inquiries already have resulted in increased scrutiny of the industry and new rules and regulations for mutual funds and investment managers. This regulatory scrutiny may limit our ability to engage in certain activities that might be beneficial to our stockholders. See “Regulatory Environment and Compliance”.

The investment management industry is intensely competitive.

The investment management industry is intensely competitive, with competition based on a variety of factors, including investment performance, investment management fee rates, continuity of investment professionals and client relationships, the quality of services provided to clients, corporate positioning and business reputation, continuity of selling arrangements with intermediaries and differentiated products. A number of factors, including the following, serve to increase our competitive risks:

- Unlike some of our competitors, we do not currently offer passive investment strategies or “solutions” products like target-date funds.
- A number of our competitors have greater financial, technical, marketing and other resources, more comprehensive name recognition and more personnel than we do.
- Potential competitors have a relatively low cost of entering the investment management industry.
- Some investors may prefer to invest with an investment manager that is not publicly traded based on the perception that a publicly-traded asset manager may focus on the manager’s own growth to the detriment of investment performance for clients.
- Other industry participants may seek to recruit our investment professionals.
- Many competitors charge lower fees for their investment management services than we do.

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For example, the trend in favor of low-fee passive products such as index and certain exchange-traded funds will favor those of our competitors who provide passive investment strategies. In recent years, across the investment management industry, passive products have experienced inflows and traditional actively managed products have experienced outflows, in each case, in the aggregate. That trend has presented, and will continue to present, a headwind to our business. Separately, intermediaries through which we distribute our mutual funds may also sell their own proprietary funds and investment products, which could limit the distribution of our investment strategies. If we are unable to compete effectively, our earnings would be reduced and our business could be materially adversely affected.

The investment management industry faces substantial litigation risks which could materially adversely affect our business, financial condition or results of operations or cause significant reputational harm to us.

We depend to a large extent on our network of relationships and on our reputation in order to attract and retain client assets. If a client is not satisfied with our services, its dissatisfaction may be more damaging to our business than client dissatisfaction would be to other types of businesses. We make investment decisions on behalf of our clients that could result in substantial losses to them. If our clients suffer significant losses, or are otherwise dissatisfied with our services, we could be subject to the risk of legal liabilities or actions alleging negligent misconduct, breach of fiduciary duty, breach of contract, unjust enrichment and/or fraud. These risks are often difficult to assess or quantify and their existence and magnitude often remain unknown for substantial periods of time, even after an action has been commenced.

We may incur significant legal expenses in defending against litigation whether or not we engaged in conduct as a result of which we might be subject to legal liability. Substantial legal liability or significant regulatory action against us could materially adversely affect our business, financial condition or results of operations or cause significant reputational harm to us.

Risks Related to Our Structure

Control by our stockholders committee of approximately 18% of the combined voting power of our capital stock and the rights of holders of limited partnership units of Artisan Partners Holdings may give rise to conflicts of interest.

As of February 14, 2019, our employees to whom we have granted equity (including our employee-partners) held approximately 18% of the combined voting power of our capital stock and have entered into a stockholders agreement pursuant to which they granted an irrevocable voting proxy with respect to all shares of our common stock they have acquired from us and any shares they may acquire from us in the future to a stockholders committee. Any additional shares of our common stock that we issue to our employee-partners or other employees, including shares of common stock issued under our Omnibus Incentive Compensation Plan, will be subject to the stockholders agreement so long as the agreement has not been terminated. Shares held by an employee cease to be subject to the stockholders agreement upon termination of employment.

The stockholders committee currently consists of Eric R. Colson (Chairman and Chief Executive Officer), Charles J. Daley, Jr. (Chief Financial Officer) and Gregory K. Ramirez (Executive Vice President). All shares subject to the stockholders agreement are voted in accordance with the majority decision of those three members. The stockholders committee’s control of approximately 18% of the combined voting power gives the committee considerable influence in determining the outcome of any shareholder vote, including the election of directors and the approval of transactions.

Our employee-partners (through their ownership of Class B common units), AIC (through its ownership of Class D common units) and the holders of Class A common units have the right, each voting as a single and separate class, to approve or disapprove certain transactions and matters, including material corporate transactions, such as a merger, consolidation, dissolution or sale of greater than 25% of the fair market value of Artisan Partners Holdings’ assets. These voting and class approval rights may enable our employee-partners, AIC or the holders of Class A common units to prevent the consummation of transactions that may be in the best interests of holders of our Class A common stock.

In addition, because the majority of our pre-IPO owners (including members of our board of directors) hold all or a portion of their ownership interests in our business through Artisan Partners Holdings, rather than through Artisan Partners Asset Management, these pre-IPO owners may have conflicting interests with holders of our Class A common stock. For example, our pre-IPO owners may have different tax positions from us which could influence their decisions regarding whether and when we should dispose of assets, whether and when we should incur new or refinance existing indebtedness, especially in light of the existence of the tax receivable agreements, and whether and when Artisan Partners Asset Management should terminate the tax receivable agreements and accelerate its obligations thereunder. In addition, the structuring of future transactions may take into consideration these pre-IPO owners’ tax or other considerations even where no similar benefit would accrue to us.

Our ability to pay regular dividends to our stockholders is subject to the discretion of our board of directors and may be limited by our structure and applicable provisions of Delaware law.

We intend to pay dividends to holders of our Class A common stock as described in “Dividend Policy”. Our board of directors may, in its sole discretion, change the amount or frequency of dividends or discontinue the payment of dividends entirely. In addition, as a holding company, we are dependent upon the ability of our subsidiaries to generate earnings and cash flows and distribute them to us so that we may pay dividends to our stockholders. We expect to cause Artisan Partners Holdings, which is a Delaware limited partnership, to make distributions to its partners, including us, in an amount sufficient for us to pay dividends.

However, its ability to make such distributions will be subject to its and its subsidiaries' operating results, cash requirements and financial condition, the applicable provisions of Delaware law that may limit the amount of funds available for distribution to its partners, its compliance with covenants and financial ratios related to existing or future indebtedness, including under our notes and our revolving credit agreement, its other agreements with third parties, as well as its obligation to make tax distributions under its partnership agreement (which distributions would reduce the cash available for distributions by Artisan Partners Holdings to us).

In addition, each of the companies in our corporate chain must manage its assets, liabilities and working capital in order to meet all of its cash obligations, including the payment of dividends or distributions. As a consequence of these various limitations and restrictions, we may not be able to make, or may have to reduce or eliminate, the payment of dividends on our Class A common stock. Any change in the level of our dividends or the suspension of the payment thereof could adversely affect the market price of our Class A common stock.

Our ability to pay taxes and expenses, including payments under the tax receivable agreements, may be limited by our holding company structure.

As a holding company, our assets principally consist of our ownership of partnership units of Artisan Partners Holdings, deferred tax assets and cash and we have no independent means of generating revenue. Artisan Partners Holdings is a partnership for U.S. federal income tax purposes and, as such, is not subject to U.S. federal income tax. Instead, Artisan Partners Holdings' taxable income is allocated to holders of its partnership units, including us. Accordingly, we incur income taxes on our proportionate share of Artisan Partners Holdings' taxable income and also may incur expenses related to our operations. Under the terms of its amended and restated limited partnership agreement, Artisan Partners Holdings is obligated to make tax distributions to holders of its partnership units, including us. In addition to tax expenses, we are also required to make payments under the tax receivable agreements, which will be significant, and we incur other expenses related to the tax receivable agreements and our operations. 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. We also intend to cause Artisan Partners Holdings to make distributions in an amount sufficient to allow us to pay our taxes and pay any additional operating expenses. However, its ability to make such distributions will be subject to various limitations and restrictions as set forth in the preceding risk factor. If, as a consequence of these various limitations and restrictions, we do not have sufficient funds to pay tax or other liabilities or to fund our operations, we may have to borrow funds and thus our liquidity and financial condition could be materially adversely affected. To the extent that we are unable to make payments when due under the tax receivable agreements for any reason, such payments will be deferred and will accrue interest at a rate equal to one-year LIBOR plus 300 basis points until paid.

We will be required to pay the tax receivable agreement beneficiaries for certain tax benefits we claim, and we expect that the payments we will be required to make will be substantial.

We are party to two tax receivable agreements. The first tax receivable agreement generally provides for the payment by APAM to 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 tax receivable agreement generally provides for the payment by APAM to current or former limited partners of Artisan Partners 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 us 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.

The payment obligation under the tax receivable agreements is an obligation of APAM, not Artisan Partners Holdings, and we expect that the payments we will be required to make under the tax receivable agreements will be substantial. Assuming no material changes in the relevant tax law and that APAM earns sufficient taxable income to realize all tax benefits that are subject to the tax receivable agreements, we expect that the reduction in tax payments for us associated with (i) the merger described above; (ii) the purchase or exchange of partnership units from March 2013 through December 31, 2018; and (iii) projected future purchases or exchanges of partnership units would aggregate to approximately $576 million over generally a minimum of 15 years, assuming the future purchases or exchanges described in clause (iii) occurred at a price of $22.11 per share of our Class A common stock, the closing price of our Class A common stock on December 31, 2018. Under such scenario we would be required to pay the other parties to the tax receivable agreements 85% of such amount, or approximately $515 million, over generally a minimum of 15 years. The actual amounts may materially differ from these hypothetical amounts, as potential future reductions in tax payments for us and tax receivable agreement payments by us will be calculated using the market value of our Class A common stock at the time of purchase or exchange and the prevailing tax rates applicable to us over the life of the tax receivable agreements and will be dependent on us generating sufficient future taxable income to realize the benefit. As of December 31, 2018, we recorded a $369.4 million liability, representing amounts payable under the tax receivable agreements equal to 85% of

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the tax benefit we expected to realize from the H&F Corp merger described above, our purchase of partnership units from limited partners of Holdings and the exchange of partnership units from March 2013 through December 31, 2018, assuming no material changes in the related tax law and that APAM earns sufficient taxable income to realize all tax benefits subject to the tax receivable agreements.

The liability will increase upon future purchases or exchanges of limited partnership units with the increase representing amounts payable under the tax receivable agreements equal to 85% of the estimated future tax benefits, if any, resulting from such purchases or exchanges. Payments under the tax receivable agreements are not conditioned on the counterparties' continued ownership of us. 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 tax receivable agreements constituting imputed interest or depreciable basis or amortizable basis. Payments under the tax receivable agreements are expected to give rise to certain additional tax benefits attributable to either further increases in basis or in the form of deductions for imputed interest, depending on the tax receivable agreement and the circumstances. Any such benefits are covered by the tax receivable agreements and will increase the amounts due thereunder. In addition, the tax receivable agreements provide for interest, at a rate equal to one-year LIBOR plus 100 basis points, accrued from the due date (without extensions) of the corresponding APAM tax return to the actual payment date, provided that the actual payment date is on or before the payment due date, as specified in the tax receivable agreements. In addition, to the extent that we are unable to make payments when due under the tax receivable agreements for any reason, such payments will be deferred and will accrue interest at a rate equal to one-year LIBOR plus 300 basis points until paid.

Payments under the tax receivable agreements will be based on the tax reporting positions that we determine. Although we are not aware of any issue that would cause the IRS or other taxing authority to challenge a tax basis increase or other tax attributes subject to the tax receivable agreements, we will not be reimbursed for any payments previously made under the tax receivable agreements if such basis increases or other benefits are subsequently disallowed (however, any such additional payments may be netted against future payments (if any) that are made under the tax receivable agreements). As a result, in certain circumstances, payments could be made under the tax receivable agreements in excess of the benefits that we actually realize in respect of the attributes to which the tax receivable agreements relate.

In certain cases, payments under the tax receivable agreements may be accelerated and/or significantly exceed the actual benefits we realize in respect of the tax attributes subject to the tax receivable agreements.

The tax receivable agreements provide that (i) upon certain mergers, asset sales, other forms of business combinations or other changes of control, (ii) in the event that we materially breach any of our material obligations under the agreements, whether as a result of failure to make any payment within six months of when due (provided we have sufficient funds to make such payment), failure to honor any other material obligation required thereunder or by operation of law as a result of the rejection of the agreements in a bankruptcy or otherwise, or (iii) if, at any time, we elect an early termination of the agreements, our (or our successor's) obligations under the agreements (with respect to all units, whether or not units have been exchanged or acquired before or after such transaction) would be based on certain assumptions. In the case of a material breach or if we elect early termination, those assumptions include that we would have sufficient taxable income to fully utilize the deductions arising from the increased tax deductions and tax basis and other benefits related to entering into the tax receivable agreements. In the case of a change of control, the assumptions include that in each taxable year ending on or after the closing date of the change of control, our taxable income (prior to the application of the tax deductions and tax basis and other benefits related to entering into the tax receivable agreements) will equal the greater of (i) the actual taxable income (prior to the application of the tax deductions and tax basis and other benefits related to entering into the tax receivable agreements) for the taxable year and (ii) the highest taxable income (calculated without taking into account extraordinary items of income or deduction and prior to the application of the tax deductions and tax basis and other benefits related to entering into the tax receivable agreements) in any of the four fiscal quarters ended prior to the closing date of the change of control, annualized and increased by 10% for each taxable year beginning with the second taxable year following the closing date of the change of control. In the event we elect to terminate the agreements early or we materially breach a material obligation, our obligations under the agreements will accelerate. As a result, (i) we could be required to make payments under the tax receivable agreements that are greater than or less than the specified percentage of the actual benefits we realize in respect of the tax attributes subject to the agreements and (ii) if we materially breach a material obligation under the agreements or if we elect to terminate the agreements early, we would be required to make an immediate payment equal to the present value of the anticipated future tax benefits, which payment may be made significantly in advance of the actual realization of such future benefits. In these situations, our obligations under the tax receivable agreements could have a substantial negative impact on our liquidity and could have the effect of delaying, deferring or preventing certain mergers, asset sales, other forms of business combinations or other changes of control. There can be no assurance that we will be able to finance our obligations under the tax receivable agreements. If we were to elect to terminate the tax receivable agreements associated with (i) the merger described above; (ii) the purchase or exchange of partnership units from March 2013 through December 31, 2018; and (iii) projected future purchases or exchanges of partnership units, as of December 31, 2018, based on an assumed discount rate equal to one-year LIBOR plus 100 basis points, we estimate that we would be required to pay approximately $393 million in the aggregate under the tax receivable agreements.

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If we were deemed an investment company under the 1940 Act as a result of our ownership of Artisan Partners Holdings, applicable restrictions could make it impractical for us to continue our business as contemplated and could have a material adverse effect on our business.

Under Sections 3(a)(1)(A) and (C) of the 1940 Act, a company generally will be deemed to be an "investment company" for purposes of the 1940 Act if (i) it is, or holds itself out as being, engaged primarily, or proposes to engage primarily, in the business of investing, reinvesting or trading in securities or (ii) it engages, or proposes to engage, in the business of investing, reinvesting, owning, holding or trading in securities and, absent an applicable exemption, it owns or proposes to acquire investment securities having a value exceeding 40% of the value of its total assets (exclusive of U.S. government securities and cash items) on an unconsolidated basis. We do not believe that we are an "investment company", as such term is defined in either of those sections of the 1940 Act.

As the sole general partner of Artisan Partners Holdings, we control and operate Artisan Partners Holdings. On that basis, we believe that our interest in Artisan Partners Holdings is not an "investment security" as that term is used in the 1940 Act. However, if we were to cease participation in the management of Artisan Partners Holdings, our interest in Artisan Partners Holdings could be deemed an "investment security" for purposes of the 1940 Act.

We and Artisan Partners Holdings intend to continue to conduct our operations so that we will not be deemed an investment company. However, if we were to be deemed an investment company, restrictions imposed by the 1940 Act, including limitations on our capital structure and our ability to transact with affiliates, could make it impractical for us to continue our business as contemplated and could have a material adverse effect on our business.

Risks Related to Our Class A Common Stock

The market price and trading volume of our Class A common stock may be volatile, which could result in rapid and substantial losses for our stockholders.

The market price of our Class A common stock may be highly volatile and could be subject to wide fluctuations. In addition, the trading volume of our Class A common stock may fluctuate and cause significant price variations to occur. If the market price of our Class A common stock declines significantly, investors may be unable to sell shares of Class A common stock at or above their purchase price, if at all. The market price of our Class A common stock may fluctuate or decline significantly in the future.

Some of the factors that could negatively affect the price of our Class A common stock, or result in fluctuations in the price or trading volume of our Class A common stock, include:

- Departures of our portfolio managers or members of our management team or additions or departures of other key personnel.
- Actual or anticipated poor performance in one or more of the investment strategies we offer.
- Variations in our quarterly operating results.
- Litigation and governmental investigations.
- Adverse market reaction to any plans we may announce, indebtedness we may incur or securities we may issue in the future.
- Failure to meet analysts' earnings or other expectations.
- Publication of research reports about us or the investment management industry.
- Actions by stockholders.
- Changes in market valuations of similar companies.
- Changes or proposed changes in laws or regulations, or differing interpretations thereof, affecting our business, or enforcement of these laws and regulations, or announcements relating to these matters.
- Adverse publicity about the investment management industry generally, or particular scandals, specifically.
- The relatively low trading volume and public float of our Class A common stock.
- Sales of a large number of shares of our Class A common stock or the perception that such sales could occur.
- General market and economic conditions.

Future sales of our Class A common stock in the public market could lower our stock price, and any future grant or sale of equity or convertible securities may dilute existing stockholders' ownership in us.

The market price of our Class A common stock could decline as a result of future sales of a large number of shares of our Class A common stock, or the perception that such sales could occur. These sales, or the possibility that these sales may occur, also may make it more difficult for us to raise additional capital by selling equity securities in the future, at a time and price that we deem appropriate.

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We are party to a resale and registration rights agreement pursuant to which the shares of our Class A common stock issued upon exchange of limited partnership units are eligible for resale. Such shares of Class A common stock may be transferred only in accordance with the terms and conditions of the resale and registration rights agreement. The common units of Artisan Partners Holdings discussed below are exchangeable for shares of our Class A common stock on a one-for-one basis.
There is no limit on the number of shares of our Class A common stock that our Class A limited partners or AIC are permitted to sell. As of December 31, 2018, our Class A limited partners owned approximately 7.2 million Class A common units and AIC owned approximately 3.5 million Class D common units.
For an employee-partner, in each one-year period, the first of which began in the first quarter of 2014, the partner is generally permitted to sell up to (i) a number of vested shares of our Class A common stock representing 15% of the aggregate number of common units and shares of Class A common stock received upon exchange of common units (in each case, whether vested or unvested) he or she held as of the first day of that period or, (ii) if greater, vested shares of our Class A common stock having a market value as of the time of sale of $250,000, as well as, in either case, the number of shares such holder could have sold in any previous period or periods but did not sell in such period or periods. In February 2018, our Board approved the sale of additional shares by certain employee-partners. Those employee-partners were permitted to sell 20% of the aggregate number of common units and shares of Class A common stock received upon exchange of common units in 2018. We expect to permit them to sell the same number of shares during the first quarter of 2019, 2020, 2021 and 2022, subject to their maintaining a minimum dollar amount of firm equity. As of December 31, 2018, our employee-partners owned 8.6 million Class B common units. Approximately 3.0 million of those units are eligible for exchange and sale in the first quarter of 2019. An additional 2.4 million units are eligible for exchange and sale by retired employee-partners in the first quarter of 2019. We may waive or modify these restrictions.
In addition, we have filed a registration statement registering 15,000,000 shares of our Class A common stock for issuance pursuant to our 2013 Omnibus Incentive Compensation Plan and 2013 Non-Employee Director Plan. Including the January 2019 grant, we have awarded 8,552,161 restricted stock units or restricted shares of Class A common stock to our employees and employees of our subsidiaries. 5,407,343 of these awards vest pro rata over the five years from the date of issuance and may be sold upon vesting. 3,144,818 of these awards are career awards or franchise awards, which generally will only vest upon the grantee's qualifying retirement. We may increase the number of shares registered for this purpose from time to time. Once these shares have been issued and have vested, they will be able to be sold in the public market.
We may also purchase limited partnerships units of Holdings at any time and may issue and sell additional shares of our Class A common stock to fund such purchases. We cannot predict the size of future issuances of our Class A common stock or the effect, if any, that future issuances and sales of shares of our Class A common stock may have on the market price of our Class A common stock. Sales or distributions of substantial amounts of our Class A common stock (including shares issued in connection with an acquisition), or the perception that such sales could occur, may cause the market price of our Class A common stock to decline.

Anti-takeover provisions in our restated certificate of incorporation and amended and restated bylaws and in the Delaware General Corporation Law, as well as the terms of our equity awards, could discourage a change of control that our stockholders may favor, which could negatively affect the market price of our Class A common stock.

Provisions in our restated certificate of incorporation, amended and restated bylaws and in the Delaware General Corporation Law, or the DGCL, as well as the terms of our equity awards, may make it more difficult and expensive for a third party to acquire control of us even if a change of control would be beneficial to the interests of our stockholders. Those provisions include:

- The right of the various classes of our capital stock to vote, as separate classes, on certain amendments to our restated certificate of incorporation and certain fundamental transactions.
- The ability of our board of directors to determine to issue shares of preferred stock and to determine the price and other terms of those shares, which could be used to thwart a takeover attempt.
- Advance notice procedures that stockholders must comply with in order to nominate candidates to our board of directors or to propose matters to be acted upon at a stockholders' meeting, which may discourage or deter a potential acquiror from conducting a solicitation of proxies to elect the acquiror's own slate of directors or otherwise attempting to obtain control of us.
- A limitation that, generally, stockholder action may only be taken at an annual or special meeting or by unanimous written consent.
- A requirement that a special meeting of stockholders may be called only by our board of directors or our Chairman and Chief Executive Officer, which may delay the ability of our stockholders to force consideration of a proposal or to take action, including the removal of directors.
- The ability of our board of directors to adopt, amend and repeal our amended and restated bylaws by majority vote, while such action by stockholders would require a super majority vote, which makes it more difficult for stockholders to change certain provisions described above.

- Except with respect to awards held by our named executive officers, single trigger vesting upon a change in control for all unvested employee equity awards, including all unvested equity awards held by investment team members. Prior to February 2019, our awards generally included double-trigger vesting upon a change in control.

The market price of our Class A common stock could be adversely affected to the extent that the above discourage potential takeover attempts that our stockholders may favor.

Our restated certificate of incorporation designates the Court of Chancery of the State of Delaware as the sole and exclusive forum for certain types of actions and proceedings that may be initiated by our stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers, employees or agents.

Our restated certificate of incorporation provides that, unless we consent in writing to an alternative forum, the Court of Chancery of the State of Delaware will be the sole and exclusive forum for (i) any derivative action or proceeding brought on our behalf, (ii) any action asserting a claim of breach of a fiduciary duty owed by any of our directors, officers, employees or agents to us or our stockholders, (iii) any action asserting a claim arising pursuant to any provision of the Delaware General Corporation Law, our restated certificate of incorporation or our amended and restated bylaws or (iv) any action asserting a claim that is governed by the internal affairs doctrine, in each case subject to the Court of Chancery having personal jurisdiction over the indispensable parties named as defendants therein and the claim not being one which is vested in the exclusive jurisdiction of a court or forum other than the Court of Chancery or for which the Court of Chancery does not have subject matter jurisdiction. Any person purchasing or otherwise acquiring any interest in any shares of our capital stock shall be deemed to have notice of and to have consented to this provision of our restated certificate of incorporation. This choice of forum provision may limit our stockholders' ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers, employees or agents, which may discourage such lawsuits against us and our directors, officers, employees and agents. Alternatively, if a court were to find this provision of our restated certificate of incorporation inapplicable to, or unenforceable in respect of, one or more of the specified types of actions or proceedings, we may incur additional costs associated with resolving such matters in other jurisdictions, which could adversely affect our business and financial condition.

Our indemnification obligations may pose substantial risks to our financial condition.

Pursuant to our restated certificate of incorporation, we will indemnify our directors and officers to the fullest extent permitted by Delaware law against all liability and expense incurred by them in their capacities as directors or officers of us. We also are obligated to pay their expenses in connection with the defense of claims. Our bylaws provide for similar indemnification of, and advancement of expenses to, our directors, officers, employees and agents and members of our stockholders committee. We have also entered into indemnification agreements with each of our directors and executive officers and each member of our stockholders committee, pursuant to which we will indemnify them to the fullest extent permitted by Delaware law in connection with their service in such capacities. Artisan Partners Holdings will indemnify and advance expenses to AIC, as its former general partner, the former members of its pre-IPO Advisory Committee, the members of our stockholders committee, our directors and officers and its officers and employees against any liability and expenses incurred by them and arising as a result of the capacities in which they serve or served Artisan Partners Holdings.

We have obtained liability insurance insuring our directors, officers and members of our stockholders committee against liability for acts or omissions in their capacities as directors, officers or committee members subject to certain exclusions. These indemnification obligations may pose substantial risks to our financial condition, as we may not be able to maintain our insurance or, even if we are able to maintain our insurance, claims in excess of our insurance coverage could be material. In addition, these indemnification obligations and other provisions of our restated certificate of incorporation, and the amended and restated partnership agreement of Artisan Partners Holdings, may have the effect of reducing the likelihood of derivative litigation against indemnified persons, and may discourage or deter stockholders or management from bringing a lawsuit against such persons, even though such an action, if successful, might otherwise have benefited us and our stockholders.

Our restated certificate of incorporation provides that certain of our investors do not have an obligation to offer us business opportunities.

Our restated certificate of incorporation provides that, to the fullest extent permitted by applicable law, certain of our investors and their respective affiliates (including affiliates who serve on our board of directors) have no obligation to offer us an opportunity to participate in the business opportunities presented to them, even if the opportunity is one that we might reasonably have pursued (and therefore they may be free to compete with us in the same business or similar business). Furthermore, we renounce and waive and agree not to assert any claim for breach of any fiduciary or other duty relating to any such opportunity against those investors and their affiliates by reason of any such activities unless, in the case of any person who is our director or officer, such opportunity is expressly offered to such director or officer in writing solely in his or her capacity as an officer or director of us. This may create actual and potential conflicts of interest between us and certain of our investors and their affiliates (including certain of our directors).

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If securities or industry analysts do not publish research or publish inaccurate or unfavorable research about our business or our industry, our stock price and trading volume could decline.

The trading market for our Class A common stock depends in part on the research and reports that securities or industry analysts publish about us or our business, or about the investment management industry generally. If one or more of the analysts who cover us downgrades our stock or publishes unfavorable research about our business or about the investment management industry, our stock price would likely decline. If one or more of these analysts ceases coverage of us or fails to publish reports on us regularly, demand for our stock could decrease, which could cause our stock price and trading volume to decline.

Item 1B. Unresolved Staff Comments

None

Item 2. Properties

We lease all of our office space, including our offices in Milwaukee, Wisconsin; San Francisco, California; Atlanta, Georgia; New York, New York; Wilmington, Delaware; Chicago, Illinois; Denver, Colorado; Sydney; London; Singapore and Toronto. Most of our business operations are based in Milwaukee. Our Chief Executive Officer and Chief Financial Officer, along with other employees, are based in San Francisco. We believe our existing and contracted-for facilities are adequate to meet our requirements.

Item 3. 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 4. Mine Safety Disclosures

Not applicable

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PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Shares of our Class A common stock have been listed and traded on the NYSE under the symbol "APAM" since March 7, 2013. As of February 14, 2019, there were approximately 109 stockholders of record of our Class A common stock, 33 stockholders of record of our Class B common stock, and 36 stockholders of record of our Class C common stock. These figures do not reflect beneficial ownership or shares held in nominee name, nor do they include holders of any restricted stock units. There is no trading market for shares of our Class B common stock or Class C common stock.

Performance Graph

The following graph compares the year-end cumulative total stockholder return on our Class A common stock during the five-year period ended December 31, 2018, with the year-end cumulative total return of the S&P 500® and the Dow Jones U.S. Asset Managers Index. The graph assumes the investment of $100 in our common stock and in the market indices and the reinvestment of all dividends.

	For the years ended December 31,				
	2014	**2015**	**2016**	**2017**	**2018**
Artisan Partners Asset Management, Inc.	$82.89	$63.84	$58.44	$84.78	$52.46
S&P 500 Index	$113.69	$115.26	$129.05	$157.22	$150.33
Dow Jones U.S. Asset Managers Index	$109.78	$98.61	$109.67	$142.19	$106.58

The above table is provided pursuant to SEC regulations and the outcomes are impacted significantly by beginning- and end-point stock price, as well as the price at which dividends are reinvested. A shareholder who invested in APAM at its IPO on March 7, 2013, at the IPO price of $30 per share, and retained all dividends (instead of reinvesting them) would have experienced a 4% annual total return as of December 31, 2018.

The information contained in the performance graph and table shall not be deemed to be "soliciting material" or "filed" or incorporated by reference in future filings with the SEC, except to the extent that the company specifically incorporates the information by reference into a document filed under the Securities Act or the Exchange Act.

Dividend Policy

During the first quarter of 2019, our board of directors declared a variable quarterly dividend of $0.56 per share with respect to the December 2018 quarter and a special annual dividend of $1.03 per share. The variable quarterly dividend of $0.56 per share represents approximately 80% of the cash generated in the December 2018 quarter. 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. We expect cash generation will approximately equal adjusted net income plus equity-based compensation expense, adjusting for certain other sources and uses of cash, including capital expenditures.

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We intend to fund dividends from our portion of distributions made by Artisan Partners Holdings from its available cash generated from operations. The holders of our Class B common stock and Class C common stock are not entitled to any cash dividends in their capacity as stockholders, but, in their capacity as holders of limited partnership units of Artisan Partners Holdings, they generally participate on a pro rata basis in distributions by Artisan Partners Holdings.

The declaration and payment of all future dividends, if any, will be at the sole discretion of our board of directors. In determining the amount of any future dividends, our board of directors will take into account: (i) our financial results, (ii) our available cash, as well as anticipated cash requirements (including debt servicing), (iii) our capital requirements and the capital requirements of our subsidiaries (including Artisan Partners Holdings), (iv) contractual, legal, tax and regulatory restrictions on, and implications of, the payment of dividends by us to our stockholders or by our subsidiaries (including Artisan Partners Holdings) to us, including the obligation of Artisan Partners Holdings to make tax distributions to the holders of partnership units (including us), (v) general economic and business conditions and (vi) any other factors that our board of directors may deem relevant.

As a holding company, our assets principally consist of our ownership of partnership units of Artisan Partners Holdings, deferred tax assets and cash. Accordingly, we depend on distributions from Artisan Partners Holdings to fund any dividends we may pay. We intend to cause Artisan Partners Holdings to distribute cash to its partners, including us, in an amount sufficient to cover dividends, if any, declared by us. If we do cause Artisan Partners Holdings to make such distributions, holders of Artisan Partners Holdings limited partnership units will be entitled to receive equivalent distributions on a pro rata basis.

Our dividend policy has certain risks and limitations, particularly with respect to liquidity. Although we expect to pay dividends according to our dividend policy, we may not pay dividends according to our policy, or at all, if, among other things, Artisan Partners Holdings is unable to make distributions to us as a result of its operating results, cash requirements and financial condition, the applicable laws of the State of Delaware (which may limit the amount of funds available for distribution), its compliance with covenants and financial ratios related to indebtedness (including the notes and the revolving credit agreement) and its other agreements with third parties. Our note purchase and revolving credit agreements contain covenants limiting Artisan Partners Holdings' ability to make distributions if a default has occurred and is continuing or would result from such a distribution. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources".

Under the Delaware General Corporation Law, we may only pay dividends from legally available surplus or, if there is no such surplus, out of our net profits for the fiscal year in which the dividend is declared and/or the preceding fiscal year. Surplus is defined as the excess of the fair value of our total assets over the sum of the fair value of our total liabilities plus the par value of our outstanding capital stock. Capital stock is defined as the aggregate of the par value of all issued capital stock. To the extent we do not have sufficient cash to pay dividends, we may decide not to pay dividends.

Artisan Partners Holdings' Distributions

Artisan Partners Holdings has made the following distributions to holders of its partnership units, including APAM, during the periods indicated:

	For the Years Ended December 31,	
	2018	**2017**
	(in millions)	
For the quarter ended March 31	$68.3	$38.2
For the quarter ended June 30	$100.4	$100.1
For the quarter ended September 30	$72.5	$77.2
For the quarter ending December 31	$79.6	$97.4

Unregistered Sales of Equity Securities

As described in Note 8, "Stockholders' Equity", to the Consolidated Financial Statements included in Item 8 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 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. There were no such issuances during the three months ended December 31, 2018.

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Securities Authorized for Issuance Under Equity Compensation Plans

The following table sets forth the total shares of our Class A common stock authorized and issued (or to be issued) under our equity compensation plans as of December 31, 2018:

	As of December 31, 2018		
	Issued (or to be issued upon settlement of restricted stock units)[1]	Number of Securities remaining available for future issuance under equity compensation plans	Equity Type
2013 Omnibus Incentive Compensation Plan	7,453,001	6,546,999	Restricted Share Awards Restricted Stock Units
2013 Non-Employee Director Plan	148,184	851,816	Restricted Stock Units

[1] Excludes securities forfeited by grantees and available for future issuance.

These plans were approved by our sole stockholder prior to our IPO in March 2013. For restricted stock units issued to employees, the shares of Class A common stock underlying the restricted stock units will generally be issued and delivered promptly following the vesting of the awards. For restricted stock units issued to non-employee directors, the shares of Class A common stock underlying the restricted stock units will generally be issued and delivered on or promptly following the termination of the non-employee director's service on the Board.

Item 6. Selected Financial Data

The following tables set forth selected historical consolidated financial data of Artisan Partners Asset Management as of the dates and for the periods indicated. The selected consolidated statements of operations data for the years ended December 31, 2018, 2017 and 2016 and the selected consolidated statements of financial condition data as of December 31, 2018 and 2017 have been derived from our audited consolidated financial statements included elsewhere in this document. The selected consolidated statements of operations data for the years ended December 31, 2015 and 2014 and the consolidated statement of financial condition as of December 31, 2016, 2015 and 2014 have been derived from consolidated financial statements not included elsewhere in this document.

The Company adopted revised consolidation accounting guidance (ASU 2015-02) as of January 1, 2016. Upon adoption, Artisan Partners Launch Equity LP ("Launch Equity"), a private investment partnership liquidated in 2014, was deconsolidated and all periods presented in the audited consolidated financial statements were restated to reflect the deconsolidation. Launch Equity was previously accounted for as a consolidated variable interest entity until its operations were dissolved in 2014. For consistency, the selected consolidated statement of financial condition as of December 31, 2014 was restated to reflect the deconsolidation to be presented on the same basis as the annual financial statements.

You should read the following selected historical consolidated financial data together with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Consolidated Financial Statements and Notes.

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	For the Years Ended December 31,				
	2018	**2017**	**2016**	**2015**	**2014**
	(in millions, except per-share data)				
Statements of Operations Data:					
Revenues					
Management fees					
Artisan Funds & Artisan Global Funds	$522.0	$502.6	$470.6	$543.3	$575.4
Separate accounts	303.6	292.7	249.2	260.4	252.3
Performance fees	3.0	0.3	1.1	1.8	1.0
Total revenues	**$828.6**	**$795.6**	**$720.9**	**$805.5**	**$828.7**
Operating Expenses					
Salaries, incentive compensation and benefits	413.2	390.2	355.8	372.2	350.3
Pre-offering related compensation-share-based awards	—	12.7	28.1	42.1	64.7
Total compensation and benefits	413.2	402.9	383.9	414.3	415.0
Distribution, servicing and marketing	26.5	29.6	32.5	43.6	49.1
Occupancy	18.7	14.5	13.1	12.5	11.3
Communication and technology	37.2	34.1	32.2	25.5	21.0
General and administrative	28.1	28.1	25.0	27.2	25.4
Total operating expenses	**523.7**	**509.2**	**486.7**	**523.1**	**521.8**
Operating income (loss)	**304.9**	**286.4**	**234.2**	**282.4**	**306.9**
Non-operating income (expense)					
Interest expense	(11.2)	(11.4)	(11.7)	(11.7)	(11.6)
Net investment income (loss)	2.1	1.1	1.3	0.4	0.4
Net investment gain (loss) of consolidated investment products	5.7	4.2	—	—	—
Net gain (loss) on the tax receivable agreements	0.3	290.9	0.7	(12.2)	(4.2)
Total non-operating income (expense)	**(3.1)**	**284.8**	**(9.7)**	**(23.5)**	**(15.4)**
Income (loss) before income taxes	**301.8**	**571.2**	**224.5**	**258.9**	**291.5**
Provision for income taxes	47.6	420.5	51.5	46.8	48.8
Net income (loss) before noncontrolling interests	**254.2**	**150.7**	**173.0**	**212.1**	**242.7**
Less: Net income (loss) attributable to noncontrolling interests-Artisan Partners Holdings LP	91.1	99.0	100.0	130.3	173.1
Less: Net income attributable to noncontrolling interests - consolidated investment products	4.8	2.1	—	—	—
Net income attributable to Artisan Partners Asset Management Inc.	**$158.3**	**$49.6**	**$73.0**	**$81.8**	**$69.6**
Earnings (loss) per basic and diluted common share	$2.84	$0.75	$1.57	$1.86	$(0.37)
Weighted average basic and diluted common shares outstanding	48.9	44.6	38.1	35.4	27.5
Dividends declared per Class A common share	$3.19	$2.76	$2.80	$3.35	$3.83

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	As of December 31,				
	2018	**2017**	**2016**	**2015**	**2014**
Statement of Financial Condition Data:	(in millions)				
Cash and cash equivalents	$160.5	$137.3	$156.8	$166.2	$182.3
Total assets	805.0	837.2	936.2	946.5	849.5
Borrowings[1]	200.0	200.0	200.0	200.0	200.0
Total liabilities	630.2	666.5	818.5	829.9	742.0
Redeemable noncontrolling interests	34.3	62.6	—	—	—
Total equity	$140.5	$108.1	$117.7	$116.6	$107.5

[1] In August 2012, we issued $200 million in unsecured notes and entered into a $100 million five-year revolving credit agreement. In August 2017, we issued $60 million in unsecured notes and used the proceeds to repay $60 million of the 2012 unsecured notes that matured in August 2017. On the same date, we amended and extended the $100 million revolving credit facility for an additional five-year period. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources".

The following table sets forth certain of our selected operating data as of the dates and for the periods indicated:

	As of and for the Years Ended December 31,				
	2018	**2017**	**2016**	**2015**	**2014**
Selected Unaudited Operating Data:	(in millions)				
Assets under management[1]	$96,224	$115,494	$96,845	$99,848	$107,915
Net client cash flows[2]	(7,419)	(5,408)	(4,824)	(5,848)	788
Market appreciation (depreciation)[3]	$(11,851)	$24,057	$1,821	$(2,219)	$1,650

[1] Reflects the dollar value of assets we managed for our clients in our investment strategies as of the last day of the period.
[2] Reflects the dollar value of assets our clients placed with us for management, and withdrew from our management, during the period, excluding appreciation (depreciation) due to market performance and fluctuations in exchange rates.
[3] Represents the appreciation (depreciation) of the value of our assets under management during the period due to market performance and fluctuations in exchange rates, as well as income, such as dividends, earned on assets under management.

The following table shows net income, operating income, operating margin and the corresponding adjusted measures for Artisan Partners Asset Management for the periods indicated:

	For the Years Ended December 31,				
	2018	**2017**	**2016**	**2015**	**2014**
	(dollars in millions)				
Net income attributable to Artisan Partners Asset Management Inc. (GAAP)	$158.3	$49.6	$73.0	$81.8	$69.6
Adjusted net income (Non-GAAP)	$226.1	$182.1	$158.7	$197.3	$228.9
Operating income (GAAP)	$304.9	$286.4	$234.2	$282.4	$306.9
Adjusted operating income (Non-GAAP)	$304.9	$299.1	$262.3	$324.5	$371.7
Operating margin (GAAP)	36.8 %	36.0 %	32.5 %	35.1 %	37.0 %
Adjusted operating margin (Non-GAAP)	36.8 %	37.6 %	36.4 %	40.3 %	44.9 %

For a further discussion of our adjusted non-GAAP measures and a reconciliation from GAAP financial measures to non-GAAP measures, including adjusted net income per adjusted share and adjusted EBITDA, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Supplemental Non-GAAP Financial Information".

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Item 7. Management's Discussion and Analysis of Financial Condition andResults 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 December 31, 2018, 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 December 31, 2018, 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. Over the last five years we have grown our assets under management from clients and investors domiciled outside of the U.S. from $11.9 billion as of December 31, 2013, to $19.9 billion as of December 31, 2018.

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

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

During the year ended December 31, 2018, our assets under management decreased to $96.2 billion, a decrease of $19.3 billion, or 16.7%, compared to $115.5 billion at December 31, 2017, as a result of $11.9 billion in market depreciation and $7.4 billion of net client cash outflows. Average assets under management for the year ended December 31, 2018 was $113.8 billion, an increase of 4.6% from the average of $108.8 billion for the year ended December 31, 2017.

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 $829 million for the year ended December 31, 2018, a 4% increase from revenues of $796 million in the prior year. GAAP operating margin was 36.8% for the year ended December 31, 2018, compared to 36.0% for the year ended December 31, 2017. Adjusted operating margin was 36.8% for the year ended December 31, 2018, compared to 37.6% for the year ended December 31, 2017.

The Tax Cuts and Jobs Act ("Tax Reform") was enacted in December 2017. As a result of Tax Reform, the U.S. federal corporate tax rate decreased from 35% to 21%, which was the largest driver of lowering APAM's effective tax rate to15.8% for the year ended December 31, 2018. The estimated adjusted effective tax rate decreased from 37% for the year ended December 31, 2017 to 23.5% for the year ended December 31, 2018.

Business highlights for 2018 included:

- Our investment teams continued to generate strong absolute and relative investment returns for clients and investors. Net of fees, 15 of our 17 strategies have generated meaningful out-performance relative to their broad-based benchmarks since inception.
- We recruited Rezo Kanovich and re-configured the Non-U.S. Small-Cap Growth strategy into the Non-U.S. Small-Mid Growth strategy to give Mr. Kanovich and his analysts greater degrees of freedom.
- We evolved the Global Value Team into two distinct and autonomous investment teams — the International Value team led by David Samra and the Global Value team led by Daniel O'Keefe.
- We earned $828.6 million in revenue, an increase of 4% compared to the prior year.
- Our GAAP operating margin was 36.8% compared to 36.0% in 2017. Adjusted operating margin was 36.8%, down slightly from 37.6% in 2017 as we reinvested in talent, technology and resources, and new investment strategies.
- We generated $2.84 of earning per basic and diluted share and $2.94 of adjusted EPS. We declared and distributed dividends of $3.19 per share of Class A common stock during 2018, and have declared a total of $3.39 of dividends with respect to 2018.

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Organizational Structure

Organizational Structure

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

Our employees and other limited partners of Holdings held approximately 30% of the equity interests in Holdings as of December 31, 2018. As a result, our results reflect that significant noncontrolling interest.

We operate our business in a single segment.

2018 Follow-On Offering and Holdings Unit Exchanges

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

During the year ended December 31, 2018, certain limited partners of Holdings exchanged 1,590,611 common units (along with a corresponding number of shares of Class B or Class C common stock of APAM) for 1,590,611 shares of Class A common stock. In connection with the exchanges, APAM received 1,590,611 GP units of Holdings.

APAM’s equity ownership interest in Holdings increased from67% at December 31, 2017 to 70% at December 31, 2018, as a result of these transactions and other equity transactions during the period.

Financial Overview

Economic Environment

Global equity and debt market conditions can materially affect our financial performance. The following table presents the total returns of relevant market indices for the years ended December 31, 2018, 2017 and 2016:

	For the Years Ended December 31,		
	2018	2017	2016
S&P 500 total returns	(4.4)%	21.8%	12.0%
MSCI All Country World total returns	(9.4)%	24.0%	7.9 %
MSCI EAFE total returns	(13.8)%	25.0%	1.0 %
Russell Midcap® total returns	(9.1)%	18.5%	13.8%
MSCI Emerging Markets Index	(14.6)%	37.3%	11.2%
ICE BofA Merrill Lynch U.S. High Yield Master II Total Return Index	(2.3)%	7.5 %	17.5%

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Key Performance Indicators

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

	For the Years Ended December 31,		
	2018	**2017**	**2016**
	(dollars in millions)		
Assets under management at period end	$96,224	$115,494	$96,845
Average assets under management[1]	$113,769	$108,754	$96,281
Net client cash flows	$(7,419)	$(5,408)	$(4,824)
Total revenues	$829	$796	$721
Weighted average fee[2]	72.9 bps	73.1 bps	74.8 bps
Operating margin	36.8 %	36.0 %	32.5 %
Adjusted operating margin[3]	36.8 %	37.6 %	36.4 %

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

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

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

Management fees and assets under management within our consolidated investment products are excluded from the weighted average fee calculations and from total revenues, since any such revenues are eliminated upon consolidation. Assets under management within Artisan 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.

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

	For the Years Ended December 31,		
	2018	2017	2016
	(in millions)		
Beginning assets under management	$115,494	$96,845	$99,848
Gross client cash inflows	18,693	16,380	18,489
Gross client cash outflows	(26,112)	(21,788)	(23,313)
Net client cash flows	(7,419)	(5,408)	(4,824)
Market appreciation (depreciation) [1]	(11,851)	24,057	1,821
Ending assets under management	$96,224	$115,494	$96,845
Average assets under management	$113,769	$108,754	$96,281

[1] Includes the impact of translating the value of assets under management denominated in non-USD currencies into US dollars. The impact was immaterial for the periods presented.

Net client cash flows for the years ended December 31, 2018, 2017 and 2016 included net outflows of approximately $852 million, $510 million, and $294 million, respectively, from Artisan Funds annual income and capital gains distributions, net of reinvestments.

Across the firm, we experienced total net outflows of $7.4 billion during the year ended December 31, 2018. Our U.S. Mid-Cap Growth, Non-U.S. Growth, and U.S. Mid-Cap Value strategies had net outflows of $3.6 billion, $3.3 billion, and $1.4 billion, respectively. In the aggregate, the rest of our strategies had approximately $1.0 billion of net inflows during 2018. We expect net outflows from the U.S. Mid-Cap Growth, U.S. Mid-Cap Value, and Non-U.S. Growth strategies to continue to weigh on our firm-wide net flows.

In October 2018, Rezo Kanovich joined Artisan as a managing director and portfolio manager on the Global Equity team. Effective October 15, 2018, he became sole portfolio manager of the Non-U.S. Small-Mid Growth strategy (formerly the Non-U.S. Small-Cap Growth strategy) and the strategy re-opened to new investors.

Effective October 1, 2018, each of the four Associate Portfolio Managers on the Global Value team were promoted to Co-Portfolio Managers. Concurrently, the Artisan Global Value team evolved into two distinct and autonomous investment teams — the International Value team led by David Samra and the Global Value team led by Daniel O'Keefe.

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. Our Non-U.S. Growth and U.S. Mid-Cap Growth strategies were reopened across all vehicles effective February 1, 2019. Our Global Value strategy was reopened across all vehicles effective February 19, 2019.

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 at 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 below sets forth the total assets under management for our investment teams and strategies as of December 31, 2018, the inception date for each investment composite, and the average annual total returns for each composite (gross of fees) and its respective broad-based benchmark (and style benchmark, if applicable) over a multi-horizon time period as of December 31, 2018. Returns for periods less than one year are not annualized.

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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	$ 14,740	(7.92)%	8.84%	7.86%	16.10%	9.27%	537
MSCI All Country World Index			*(9.42)%*	*6.59%*	*4.26%*	*9.45%*	*3.90%*	
Global Discovery	9/1/2017	112	(1.93)%				2.94%	473
MSCI All Country World Index			*(9.42)%*				*(1.79)%*	
U.S. Mid-Cap Growth Strategy	4/1/1997	9,049	(2.74)%	5.95%	5.64%	16.06%	14.18%	463
Russell® Midcap Index			*(9.06)%*	*7.04%*	*6.26%*	*14.02%*	*9.55%*	
Russell® Midcap Growth Index			*(4.75)%*	*8.59%*	*7.41%*	*15.11%*	*8.59%*	
U.S. Small-Cap Growth Strategy	4/1/1995	2,350	3.54%	12.41%	7.70%	17.05%	10.25%	164
Russell® 2000 Index			*(11.01)%*	*7.36%*	*4.41%*	*11.97%*	*8.61%*	
Russell® 2000 Growth Index			*(9.31)%*	*7.23%*	*5.13%*	*13.51%*	*7.19%*	
Global Equity Team								
Global Equity Strategy	4/1/2010	1,271	(1.95)%	9.16%	6.83%		11.30%	451
MSCI All Country World Index			*(9.42)%*	*6.59%*	*4.26%*		*6.79%*	
Non-U.S. Growth Strategy	1/1/1996	21,181	(9.80)%	2.90%	1.31%	9.30%	9.56%	534
MSCI EAFE Index			*(13.79)%*	*2.87%*	*0.53%*	*6.31%*	*4.22%*	
Non-U.S. Small-Mid Growth Strategy[2]	1/1/2019	515						
MSCI ACWI ex US Small Cap Index								
MSCI ACWI ex US SMID Index								
U.S. Value Team								
Value Equity Strategy	7/1/2005	2,172	(13.73)%	9.53%	5.00%	11.86%	7.13%	(83)
Russell® 1000 Index			*(4.78)%*	*9.08%*	*8.21%*	*13.27%*	*7.96%*	
Russell® 1000 Value Index			*(8.27)%*	*6.95%*	*5.94%*	*11.17%*	*6.49%*	
U.S. Mid-Cap Value Strategy	4/1/1999	4,405	(12.53)%	7.19%	2.91%	12.14%	12.03%	343
Russell® Midcap Index			*(9.06)%*	*7.04%*	*6.26%*	*14.02%*	*8.60%*	
Russell® Midcap Value Index			*(12.29)%*	*6.05%*	*5.44%*	*13.02%*	*8.93%*	
International Value Team[3]								
Non-U.S. Value Strategy	7/1/2002	17,681	(14.71)%	4.40%	2.71%	11.07%	11.12%	575
MSCI EAFE Index			*(13.79)%*	*2.87%*	*0.53%*	*6.31%*	*5.37%*	
Global Value Team[3]								
Global Value Strategy	7/1/2007	17,113	(12.02)%	6.53%	4.73%	12.77%	7.35%	407
MSCI All Country World Index			*(9.42)%*	*6.59%*	*4.26%*	*9.45%*	*3.28%*	
Emerging Markets Team								
Emerging Markets Strategy	7/1/2006	179	(14.20)%	12.33%	4.17%	8.66%	5.03%	53
MSCI Emerging Markets Index			*(14.58)%*	*9.24%*	*1.65%*	*8.02%*	*4.50%*	
Credit Team								
High Income Strategy	4/1/2014	2,803	(0.72)%	8.08%			6.03%	265
ICE BofAML US High Yield Master II Total Return Index			*(2.26)%*	*7.26%*			*3.38%*	
Developing World Team								
Developing World Strategy	7/1/2015	1,993	(14.53)%	9.77%			4.51%	236
MSCI Emerging Markets Index			*(14.58)%*	*9.24%*			*2.15%*	
Thematic Team								
Thematic Strategy	5/1/2017	448	11.55%				24.80%	1,968
S&P 500 Index			*(4.38)%*				*5.12%*	
Other Assets Under Management[4]		212						

Total Assets Under Management	$ 96,224

[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, including securities with lower credit ratings, that may not be included in the ICE BofA Merrill Lynch High Yield Master II 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.

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[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. Consequently, historical performance information has been omitted from this presentation.
[3] Effective October 1, 2018, the Global Value Team became two distinct and autonomous investment teams, the International Value Team and Global Value Team.
[4] 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.

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

	By Investment Team									
Year Ended	**Growth**	**Global Equity**	**U.S. Value**	**International Value[3]**	**Global Value[3]**	**Emerging Markets**	**Credit**	**Developing World**	**Thematic**	**Total**
December 31, 2018	(in millions)									
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	5,121	3,466	1,027	3,758	2,405	28	1,443	893	552	18,693
Gross client cash outflows	(7,967)	(7,044)	(2,177)	(4,434)	(2,540)	(97)	(1,079)	(742)	(32)	(26,112)
Net client cash flows	(2,846)	(3,578)	(1,150)	(676)	(135)	(69)	364	151	520	(7,419)
Market appreciation (depreciation)	(1,531)	(2,690)	(1,038)	(3,400)	(2,682)	(34)	(58)	(411)	(7)	(11,851)
Net transfers[1]	—	—	—	—	—	—	—	—	—	—
Ending assets under management	$26,251	$22,967	$6,577	$ 17,681	$17,113	$ 179	$2,860	$ 1,993	$ 603	$96,224
Average assets under management	$30,967	$27,908	$8,207	$ 20,962	$19,909	$ 237	$2,945	$ 2,379	$ 255	$113,769
December 31, 2017										
Beginning assets under management	$25,714	$25,510	$8,588	$ 17,855	$16,085	$ 228	$1,878	$ 987	$ —	$96,845
Gross client cash inflows	4,399	2,942	1,592	2,822	2,277	14	1,168	1,080	86	16,380
Gross client cash outflows	(6,153)	(6,818)	(2,517)	(3,043)	(2,278)	(53)	(672)	(253)	(1)	(21,788)
Net client cash flows	(1,754)	(3,876)	(925)	(221)	(1)	(39)	496	827	85	(5,408)
Market appreciation (depreciation)	6,668	7,601	1,102	4,235	3,734	93	180	439	5	24,057
Net transfers[1]	—	—	—	(112)	112	—	—	—	—	—
Ending assets under management	$30,628	$29,235	$8,765	$ 21,757	$19,930	$ 282	$2,554	$ 2,253	$ 90	115,494
Average assets under management[2]	$29,366	$28,060	$8,719	$ 19,896	$18,487	$ 280	$2,294	$ 1,632	$ 28	108,754
December 31, 2016										
Beginning assets under management	$24,929	$32,434	$10,369	$ 16,257	$13,925	$ 571	$989	$ 374	$ —	$99,848
Gross client cash inflows	5,803	3,897	1,650	3,091	2,292	10	1,094	652	—	18,489
Gross client cash outflows	(5,353)	(7,885)	(5,264)	(2,438)	(1,440)	(401)	(424)	(108)	—	(23,313)
Net client cash flows	450	(3,988)	(3,614)	653	852	(391)	670	544	—	(4,824)
Market appreciation (depreciation)	335	(2,936)	1,833	944	1,309	48	219	69	—	1,821
Net transfers[1]	—	—	—	—	—	—	—	—	—	—
Ending assets under management	$25,714	$25,510	$8,588	$ 17,854	$16,086	$ 228	$1,878	$ 987	$ —	$96,845
Average assets under management	$24,535	$29,216	$8,733	$ 16,834	$14,448	$ 293	$1,527	$ 694	$ —	96,281

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

(2) For the Thematic team, average assets under management is for the period between April 24, 2017, when the team's first strategy began investment operations, and December 31, 2017.

(3) Effective October 1, 2018, the Global Value Team became two distinct and autonomous investment teams, the International Value team and Global Value team. For comparability purposes, historical assets under management for both teams are presented as though they were distinct teams prior to October 1, 2018.

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

	As of December 31, 2018		**As of December 31, 2017**		**As of December 31, 2016**	
	$ in millions	**% of total**	**$ in millions**	**% of total**	**$ in millions**	**% of total**
Institutional	$63,543	66.0 %	$76,176	66.0 %	$64,113	66.2 %
Intermediary	28,363	29.5 %	34,172	29.6 %	27,925	28.8 %
Retail	4,318	4.5 %	5,146	4.4 %	4,807	5.0 %
Ending Assets Under Management[(1)]	$96,224	100.0 %	$115,494	100.0 %	$96,845	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 13% of our total assets under management as of December 31, 2018.

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

Year Ended	Artisan Funds & Artisan Global Funds	Separate Accounts[2]	Total
December 31, 2018	(in millions)		
Beginning assets under management	$57,349	$ 58,145	$115,494
Gross client cash inflows	13,863	4,830	18,693
Gross client cash outflows	(18,155)	(7,957)	(26,112)
Net client cash flows	(4,292)	(3,127)	(7,419)
Market appreciation (depreciation)	(6,065)	(5,786)	(11,851)
Net transfers[1]	(338)	338	—
Ending assets under management	$46,654	$ 49,570	$96,224
Average assets under management	$56,792	$ 56,978	$113,769
December 31, 2017			
Beginning assets under management	$49,367	$ 47,478	$96,845
Gross client cash inflows	12,448	3,932	16,380
Gross client cash outflows	(15,584)	(6,204)	(21,788)
Net client cash flows	(3,136)	(2,272)	(5,408)
Market appreciation (depreciation)	11,674	12,383	24,057
Net transfers[1]	(556)	556	—
Ending assets under management	$57,349	$ 58,145	$115,494
Average assets under management	$54,552	$ 54,225	$108,754
December 31, 2016			
Beginning assets under management	$53,526	$ 46,322	$99,848
Gross client cash inflows	13,101	5,388	18,489
Gross client cash outflows	(17,715)	(5,598)	(23,313)
Net client cash flows	(4,614)	(210)	(4,824)
Market appreciation (depreciation)	604	1,217	1,821
Net transfers[1]	(149)	149	—
Ending assets under management	$49,367	$ 47,478	$96,845
Average assets under management	$50,908	$ 45,373	96,281

[1]Net transfers represent certain amounts that we have identified as having been transferred out of one investment strategy, investment vehicle, or account and into another strategy, vehicle, or account.
[2]Separate account AUM consists of the assets we manage in or through vehicles other than Artisan Funds or Artisan Global Funds. Separate account AUM includes 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 Artisan Private Funds.

Artisan Funds and Artisan Global Funds

As of December 31, 2018, Artisan Funds comprised $43.0 billion, or 44%, of our assets under management. For the year ended December 31, 2018, fees from Artisan Funds represented $487.0 million, or 59%, of our revenues. Our contractual tiered fee rates for the series of Artisan Funds range from 0.625% to 1.05% of fund assets, depending on the strategy, the amount invested and other factors.

As of December 31, 2018, Artisan Global Funds comprised $3.6 billion, or 4%, of our assets under management. Our contractual fee rates for Artisan Global Funds range from 0.75% to 1.75% of assets under management. For the year ended December 31, 2018, fees from Artisan Global Funds represented $35.0 million, or 4%, of our revenues.

The weighted average rate of fee paid by our Artisan Funds and Artisan Global Funds clients in the aggregate was 0.919%, 0.921%, and 0.924%, for the years ended December 31, 2018, 2017 and 2016, respectively.

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Separate Accounts

Separate accounts comprised $49.6 billion, or 52%, of our assets under management as of December 31, 2018. For the year ended December 31, 2018, fees from separate accounts represented $306.6 million, or 37%, of our revenues. 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 Artisan Private Funds.

For traditional separate account clients, we generally impose standard fee schedules that vary by investment strategy and, through the application of standard breakpoints, reflect the size of the account and client relationship, with tiered rates of fee currently ranging from 0.40% of assets under management to 1.00% of assets under management. There are a number of exceptions to our standard fee schedules, including exceptions based on the nature of our relationship with the client and the value of the assets under our management in that relationship. In general, our effective rate of fee for a particular client relationship declines as the assets we manage for that client increase, which we believe is typical for the asset management industry.

The weighted average rate of fee paid by our separate account clients in the aggregate was 0.538%, 0.540%, and 0.550% for the years ended December 31, 2018, 2017 and 2016, respectively. Because, as is typical in the asset management industry, our rates of fee decline as the assets under our management in a relationship increase, and because of differences in our fees by investment strategy, a change in the composition of our assets under management, in particular a shift to strategies, clients or relationships with lower effective rates of fees, could have a material impact on our overall weighted average rate of fee. See "—Qualitative and Quantitative Disclosures Regarding Market Risk—Market Risk" for a sensitivity analysis that demonstrates the impact that certain changes in the composition of our assets under management could have on our revenues.

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 different fee structures associated with Artisan Funds, Artisan Global Funds and separate accounts and the different fee schedules of our investment strategies make the composition of our assets under management an important determinant of the investment management fees we earn. Historically, we have received higher effective rates of investment management fees from Artisan Funds and Artisan Global Funds than from our separate accounts, reflecting, among other things, the different array of services we provide to Artisan Funds and Artisan Global Funds. Investment management fees for non-U.S. funds may also be higher because they include fees to offset higher distribution costs. Our investment management fees also differ by investment strategy, with higher-capacity strategies having lower standard fee schedules than strategies with more limited capacity.

A small number of our separate account clients pay us fees according to the performance of their accounts relative to certain agreed-upon benchmarks, which typically results in a lower base fee, but allows us to earn higher fees if the performance we achieve for that client is superior to the performance of an agreed-upon benchmark. Artisan Private Funds also pay performance fees in the form of incentive allocations. Management fees and performance fees earned from consolidated investment products are eliminated from revenue upon consolidation.

The following table sets forth revenues we earned under our investment management agreements with Artisan Funds and Artisan Global Funds and on the separate accounts that we managed as well as average assets under management for the years ended December 31, 2018, 2017 and 2016:

	For the Years Ended December 31,		
	2018	**2017**	**2016**
	(in millions)		
Revenues			
Management fees			
Artisan Funds & Artisan Global Funds	$522.0	$502.6	$470.6
Separate accounts	303.6	292.7	249.2
Performance fees	3.0	0.3	1.1
Total revenues	$828.6	$795.6	$720.9
Average assets under management for period	$113,769	$108,754	$96,281

For the years ended December 31, 2018, 2017 and 2016, approximately 84%, 85% and 89%, respectively, of our investment management fees were earned from clients located in the United States.

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Operating Expenses

Our operating expenses consist primarily of compensation and benefits, distribution and marketing, occupancy, communication and technology, and general and administrative.

Our expenses may fluctuate due to a number of factors, including the following:

- variations in the level of total compensation expense due to, among other things, incentive compensation, equity awards, changes in our employee count (including the addition of new investment teams) and product mix and competitive factors; and
- expenses, such as distribution fees, rent, professional service fees, technology and data-related costs, incurred, as necessary, to operate and grow our business.

A significant portion of our operating expenses are variable and fluctuate in direct relation to our assets under management and revenues. Even if we experience declining revenues, we expect to continue to make the expenditures necessary for us to manage our business. As a result, our profits may decline.

Compensation and Benefits

Compensation and benefits includes (i) salaries, incentive compensation and benefits costs, (ii) compensation expense related to post-IPO equity awards granted to employees and (iii) pre-offering related compensation, which consists of amortization expense on unvested Class B awards. Incentive compensation is one of the most significant parts of the total compensation of our senior employees. The aggregate amount of cash incentive compensation paid to members of our investment teams and senior members of our marketing and client service teams is based on formulas that are tied directly to revenues. For each of our investment teams, incentive compensation generally represents 25% of the asset-based management fees and a share of performance-based fees generated by assets under management in the team’s strategy or strategies. Incentive compensation paid to other employees is discretionary and subjectively determined based on individual performance and our overall results during the applicable year.

Certain compensation and benefits expenses are seasonal, such as employer funded retirement and health care contributions and payroll taxes. Historically these costs have added approximately $3.5 million to our costs in the first quarter of each calendar year.

We grant equity awards to our employees pursuant to the Artisan Partners Asset Management Inc. 2013 Omnibus Incentive Compensation Plan. The awards consist of standard restricted awards that generally vest on a pro rata basis over 5 years and career awards that vest when both of the following conditions are met (1) pro-rata annual time vesting over 5 years and (2) qualifying retirement (as defined in the award agreements). Beginning in 2019, subject to execution of definitive documentation, members of investment teams who otherwise would have received career awards will receive an equal number of franchise awards. Franchise awards are identical to career awards, except with respect to the Franchise Protection Clause, which applies to current or future portfolio managers. The Franchise Protection Clause provides that the total number of franchise awards ultimately vesting will be reduced to the extent that cumulative net client cash outflows from the portfolio manager’s investment team during a 3-year measurement period beginning on the date of the portfolio manager’s retirement notice exceeds a set threshold. Compensation expense related to the equity awards is recognized based on the estimated grant date fair value, for only those awards that vest, on a straight-line basis over the requisite service period of the award. The initial requisite service period is generally five years for awards that have been granted to date.

Our board of directors approved the grant of 1,518,974 restricted share-based awards to certain of our employees during 2018 and 963,000 restricted share-based awards in January 2019. The 2018 grant consisted of both standard restricted awards and career awards, and the 2019 grant consisted of standard restricted awards, career awards and franchise awards, as described above.

Total compensation expense, which will be recognized on a straight-line basis over the requisite service period, is expected to be approximately $59.4 million and approximately $22.1 million, for the 2018 and January 2019 awards, respectively. Our first annual post-IPO equity grant, which was made in July 2013, became fully vested in August 2018. Including the January 2019 grant, we expect the expense related to post-IPO equity compensation to be approximately $12 million, $12 million, $10 million and $9 million in the March, June, September, and December quarters of 2019, respectively.

Since the IPO and including the January 2019 grant, our board of directors has approved the grant of 8,552,161 restricted share-based awards. Total unrecognized non-cash compensation expense for these awards is $125 million. We expect to continue to make equity grants each year, though the form and structure of equity awards may change as we seek to maximize alignment between our employees and our clients, investors, partners, and shareholders. The actual size of the expense over time will depend primarily on the number of awards granted and our stock price at the time the grants are made. The amount of equity granted will vary from year to year and will be influenced by our results and other factors. From time to time, we may make individual equity grants to people we hire.

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A significant portion of our historical compensation and benefits expense related to Holdings' Class B limited partnership interests. Prior to the IPO Reorganization, Class B limited partnership interests were granted to certain employees. The Class B limited partnership interests provided both an interest in future profits of Holdings as well as an interest in the overall value of Holdings. Class B limited partnership interests generally vested ratably over a five-year period from the date of grant. Holders of Class B limited partnership interests were entitled to fully participate in profits from and after the date of grant.

As part of the IPO Reorganization, Class B grant agreements were amended, which eliminated the cash redemption feature and resulted in equity award accounting since such modification. Compensation expense for these awards following the IPO Reorganization represents the amortization of the fair value of unvested awards on the date of the IPO Reorganization over the remaining vesting period. All Class B awards were fully vested and expensed as of July 1, 2017.

Distribution, Servicing and Marketing

Distribution, servicing and marketing expenses primarily represent payments we make to broker-dealers, financial advisors, defined contribution plan providers, mutual fund supermarkets and other intermediaries for selling, servicing and administering accounts invested in shares of Artisan Funds. Artisan Funds authorizes intermediaries to accept purchase, exchange, and redemption orders for shares of Artisan Funds on behalf of Artisan Funds. Many intermediaries charge a fee for those services. Artisan Funds pays a portion of such fees, which are intended to compensate the intermediary for its provision of services of the type that would be provided by Artisan Funds' transfer agent or other service providers if the shares were registered directly on the books of Artisan Funds' transfer agent. Like the investment management fees we earn as adviser to Artisan Funds, distribution, servicing and marketing fees typically vary with the value of the assets invested in shares of Artisan Funds. The allocation of such fees between us and Artisan Funds is determined by the board of Artisan Funds, based on information and a recommendation from us, with the goal of allocating to us, at a minimum, all costs attributable to the marketing and distribution of shares of Artisan Funds. A significant portion of Artisan Funds' shares are held by investors through intermediaries to which we pay distribution, servicing and marketing expenses. Total distribution, servicing and marketing fees will increase as we increase our assets under management sourced through intermediaries that charge these fees or similar fees. The amount we pay to intermediaries for distribution and administrative services varies by share class. As assets have transferred from the Investor share class to the Advisor and Institutional share class, the amount we have paid for distribution, servicing and marketing has decreased. Consistent with the experience of other investment managers, as the foregoing expenses have decreased, we have recently seen increased requests from intermediaries for alternative forms of compensation, which could over time be material.

Occupancy

Occupancy expenses include operating leases for facilities, furniture and office equipment, miscellaneous facility related costs and depreciation expense associated with furniture purchases and leasehold improvements.

We plan to exit an office space during 2019 related to investment team relocations, which we expect will result in approximately $2 million of one-time expenses in the first quarter of 2019. We expect 2019 occupancy expenses will be approximately $22 million, including the one-time exit charges.

Communication and technology

Communication and technology expenses include information and print subscriptions, telephone costs, information systems consulting fees, equipment and software maintenance expenses, operating leases for information technology equipment and depreciation and amortization expenses associated with computer hardware and software. Information and print subscriptions represent the costs we pay to obtain investment research and other data we need to operate our business, and such expenses generally increase or decrease in relative proportion to the number of our employees and the overall size and scale of our business operations. We expect to continue our measured investments in technology to support our investment teams, distribution efforts, and scalable operations.

On behalf of our mutual fund and separate account clients, we make decisions to buy and sell securities for each portfolio, select broker-dealers to execute trades and negotiate brokerage commission rates. In connection with these transactions, we may receive research products and services from broker-dealers in exchange for the business we conduct with such firms. Some of those research products and services could be acquired for cash and our receipt of those products and services through the use of client commissions, or soft dollars, reduces cash expenses we would otherwise incur. There is a trend in our industry for investment managers to bear an increased portion, or all, of these costs. Our operating expenses will increase to the extent that we decide to bear a portion or all of the costs of research directly, rather than relying on the use of soft dollars, and the increase could be material. We believe that all research products and services we acquire through soft dollars are within the safe harbor provided by Section 28(e) of the Exchange Act.

We expect 2019 communication and technology expenses will be approximately $40 million, as we continue to make investments in our business.

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General and Administrative
General and administrative expenses include professional fees, travel and entertainment, state and local taxes, directors' and officers' liability insurance, director fees, and other miscellaneous expenses we incur in operating our business.
Non-Operating Income (Expense)
Interest Expense
Interest expense primarily relates to the interest we pay on our debt. In August 2012, we issued $200 million in fixed interest rate senior unsecured notes and entered into a $100 million five-year revolving credit agreement. The proceeds were used to repay the entire outstanding principal of an existing term loan. In August 2017, we issued $60 million of Series D notes and used the proceeds to repay the $60 million Series A senior 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 revolving credit facility has been undrawn since our March 2013 IPO. For a description of the terms of the notes and our revolving credit facility, see "—Liquidity and Capital Resources". Interest expense also includes interest on TRA payments, which is incurred between the due date (without extension) for our federal income tax return and the date on which we make TRA payments.
$50 million of the unsecured notes mature in August 2019. We currently expect to refinance the notes.
Net Investment Gain (Loss) of Consolidated Investment Products
Net investment gain (loss) of consolidated investment products represents the realized and unrealized investment gains (losses) related to investment products that are included in our consolidated financial statements because Artisan holds a controlling financial interest in the respective investment entities. Significant portions of net investment gain (loss) of consolidated investment products are offset by noncontrolling interests in our Consolidated Statements of Operations.
Net Investment Income
Net investment income includes realized investment gains (losses) related to unconsolidated investment products, income earned on excess cash balances, and dividends earned on unconsolidated equity securities. As of January 1, 2018, accounting standards require all equity investments to be measured at fair value with changes in fair value recognized through net income. As a result, 2018 net investment income also includes unrealized investment gains (losses) related to unconsolidated investment products.
Net Gain (Loss) on the Tax Receivable Agreements
Non-operating income (loss) also includes gains or losses related to the changes in our estimate of the payment obligation under the tax receivable agreements, including the impact of Tax Reform. The effect of changes in our estimate of amounts payable under the tax receivable agreements, including the effect of changes in enacted tax rates and in applicable tax laws, is included in net income.
Net Income (Loss) Attributable to Noncontrolling Interests
Net Income (Loss) Attributable to Noncontrolling Interests-Holdings
Net income (loss) attributable to noncontrolling interests-Holdings represents the portion of earnings or loss attributable to the ownership interest in Artisan Partners Holdings held by the limited partners of Artisan Partners Holdings.
Net Income (Loss) Attributable to Noncontrolling Interests - Consolidated Investment Products
Net income (loss) attributable to noncontrolling interests - consolidated investment products represents the portion of earnings or loss attributable to third-party investors' ownership interest in consolidated investment products.
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. Our effective income tax rate is dependent on many factors, including a rate benefit attributable to the fact that a portion of Holdings' taxable earnings are not subject to corporate level taxes. 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. This favorable impact is partially offset by the impact of certain permanent items, including pre-IPO share-based compensation expenses, that are not deductible for tax purposes. Pre-IPO share based compensation awards became fully vested on July 1, 2017 and therefore the related impact to the effective tax rate no longer exists after July 1, 2017. The effective tax rate is also affected by the discrete tax impact of dividends on unvested share-based awards and vesting of restricted share-based awards; however, those items have not had a significant impact on our 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.

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Results of Operations

Year Ended December 31, 2018, Compared to Year Ended December 31, 2017

	For the Years Ended December 31,		Period-to-Period	
	2018	2017	$	%
Statements of operations data:	(in millions, except share and per-share data)			
Revenues	$828.6	$ 795.6	$33.0	4 %
Operating Expenses				
Total compensation and benefits	413.2	402.9	10.3	3 %
Other operating expenses	110.5	106.3	4.2	4 %
Total operating expenses	523.7	509.2	14.5	3 %
Total operating income	304.9	286.4	18.5	6 %
Non-operating income (expense)				
Interest expense	(11.2)	(11.4)	0.2	2 %
Other non-operating income	8.1	296.2	(288.1)	(97)%
Total non-operating income (expense)	(3.1)	284.8	(287.9)	(101)%
Income before income taxes	301.8	571.2	(269.4)	(47)%
Provision for income taxes	47.6	420.5	(372.9)	(89)%
Net income before noncontrolling interests	254.2	150.7	103.5	69 %
Less: Noncontrolling interests - Artisan Partners Holdings	91.1	99.0	(7.9)	(8)%
Less: Noncontrolling interests - consolidated investment products	4.8	2.1	2.7	129 %
Net income attributable to Artisan Partners Asset Management Inc.	$158.3	$ 49.6	$108.7	219 %
Share Data				
Basic and diluted earnings per share	$2.84	$ 0.75		
Basic and diluted weighted average number of common shares outstanding	48,862,435	44,647,318		

Revenues

The increase in revenues of $33.0 million, or 4%, for the year ended December 31, 2018, compared to the year ended December 31, 2017, was driven primarily by a $5.0 billion, or 5%, increase in our average assets under management. The weighted average investment management fee was 72.9 basis points for the year ended December 31, 2018, compared to 73.1 basis points for the year ended December 31, 2017. The following table sets forth the weighted average fee (which reflects the additional services we provide to pooled vehicles) and composition of revenue and assets under management by investment vehicle:

	Separate Accounts		Artisan Funds and Artisan Global Funds	
For the Years Ended December 31,	**2018**	**2017**	**2018**	**2017**
	(dollars in millions)			
Investment management fees	$306.6	$293.0	$522.0	$502.6
Weighted average fee	53.8 basis points	54.0 basis points	91.9 basis points	92.1 basis points
Percentage of ending AUM	52 %	50 %	48 %	50 %

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Operating Expenses

The increase in total operating expenses of $14.5 million, or 3%, for the year ended December 31, 2018, compared to the year ended December 31, 2017, was primarily a result of higher compensation expense due to increased revenues, an increase in equity-based compensation expense related to additional post-IPO equity grants, an increase in occupancy and technology expense, and an increase in salary and benefit costs including onboarding costs for personnel additions related to the Non-U.S. Small-Mid Growth strategy. These increases were partially offset by the completed amortization of pre-offering related equity compensation expense in 2017 and a decrease in third-party distribution expense.

Compensation and Benefits

	For the Years Ended December 31,		Period-to-Period	
	2018	2017	$	%
	(in millions)			
Salaries, incentive compensation and benefits [1]	$360.3	$341.1	$19.2	6 %
Restricted share-based award compensation expense	52.9	49.1	3.8	8 %
Total salaries, incentive compensation and benefits	413.2	390.2	23.0	6 %
Pre-offering related compensation - share-based awards	—	12.7	(12.7)	(100)%
Total compensation and benefits	**$413.2**	**$402.9**	**$10.3**	3 %

[1] Excluding restricted share-based award compensation expense

The increase in salaries, incentive compensation and benefits was driven primarily by a $10.2 million increase in incentive compensation paid to our investment and marketing professionals as a result of the increase in revenue. The remaining increase is primarily due to costs associated with an increase in the number of employees, including additional investment team personnel.

In October 2018, we onboarded an experienced and recognized leader to assume portfolio management responsibilities of the Non-U.S. Small-Cap Growth strategy, which was subsequently re-named the Non-U.S. Small-Mid Growth strategy. We also hired two experienced analysts with whom the portfolio manager previously worked. These investments resulted in incremental expense of $5 million in 2018. We expect the 2019 incremental expense to be approximately $4 million to $5 million, net of the investment team revenue share generated by the Non-U.S. Small-Mid Growth strategy.

Restricted share-based award compensation expense increased $3.8 million primarily as a result of our February 2018 grant, partially offset by the impact of the Company’s 2013 equity grants becoming fully amortized during the year.

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

Total salaries, incentive compensation and benefits was 50% and 49% of our revenues for the years ended December 31, 2018 and 2017, respectively.

Other operating expenses

Other operating expenses increased $4.2 million for the year ended December 31, 2018, compared to the year ended December 31, 2017, primarily due to increased occupancy and technology expenses. During 2018, we incurred approximately $3.1 million of incremental occupancy expense related to office relocations of several investment teams. The increased expense includes overlapping rent during the construction of new facilities, accelerated depreciation expense, and accelerated expense for the remaining lease costs to be incurred for an exited location.

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Non-Operating Income (Expense)

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

	For the Years Ended December 31,		Period-to-Period	
	2018	2017	$	%
	(in millions)			
Interest expense	$(11.2)	$(11.4)	$0.2	2 %
Net investment gain (loss) of consolidated investment products	5.7	4.2	1.5	36 %
Net investment income	2.1	1.1	1.0	91 %
Net gain (loss) on the tax receivable agreements	0.3	290.9	(290.6)	(100)%
Total non-operating income (expense)	**$(3.1)**	**$284.8**	**$(287.9)**	(101)%

For year ended December 31, 2017, $290.4 million of the gain on the tax receivable agreements was due to a measurement change in deferred tax assets resulting from Tax Reform.

Provision for Income Taxes

APAM's effective income tax rate for theyears ended December 31, 2018 and 2017 was 15.8% and 73.6%, respectively. The decrease in effective tax rate was primarily due to the enactment of Tax Reform in December 2017, which reduced the U.S. federal corporate tax rate from 35% to 21%. The lower U.S. federal corporate tax rate reduced the tax rate used to measure our deferred tax assets from 37.0% to 23.5% as of December 31, 2017, which reduced our deferred tax assets by $352 million with a corresponding increase to the provision for income taxes for the year ended December 31, 2017.

For the year ended December 31, 2018, approximately 33% of Holdings' earnings were not subject to corporate-level taxes compared to approximately 38% for the year ended December 31, 2017. 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.

Earnings Per Share

Weighted average basic and diluted shares of Class A common stock outstanding were higher for the year ended December 31, 2018, compared to the year ended December 31, 2017, as a result of stock offerings, unit exchanges, and equity award grants. See Note 13, "Earnings Per Share" in the Notes to the Consolidated Financial Statements in Item 8 of this report for further discussion of earnings per share.

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Year Ended December 31, 2017 Compared to the Year Ended December 31, 2016

	For the Years Ended December 31,		For the Period-to-Period	
	2017	2016	$	%
Statements of operations data:	(in millions, except share and per-share data)			
Revenues	$795.6	$ 720.9	$74.7	10 %
Operating Expenses				
Total compensation and benefits	402.9	383.9	19.0	5 %
Other operating expenses	106.3	102.8	3.5	3 %
Total operating expenses	509.2	486.7	22.5	5 %
Total operating income	286.4	234.2	52.2	22 %
Non-operating income (expense)				
Interest expense	(11.4)	(11.7)	0.3	3 %
Other non-operating income	296.2	2.0	294.2	14,710 %
Total non-operating income (expense)	284.8	(9.7)	294.5	3,036 %
Income before income taxes	571.2	224.5	346.7	154 %
Provision for income taxes	420.5	51.5	369.0	717 %
Net income before noncontrolling interests	150.7	173.0	(22.3)	(13)%
Less: Noncontrolling interests - Artisan Partners Holdings	99.0	100.0	(1.0)	(1)%
Less: Noncontrolling interests - consolidated investment products	$2.1	$ —	$2.1	100 %
Net income attributable to Artisan Partners Asset Management Inc.	$49.6	$ 73.0	$(23.4)	(32)%
Share Data				
Basic and diluted earnings per share	$0.75	$ 1.57		
Basic and diluted weighted average number of common shares outstanding	44,647,318	38,137,810		

Revenues

The increase in revenues of $74.7 million, or 10%, for the year ended December 31, 2017, compared to the year ended December 31, 2016, was driven primarily by a $12.5 billion, or 13%, increase in our average assets under management, partially offset by a decline in the weighted average investment management fee. The weighted average investment management fee of 73.1 basis points for the year ended December 31, 2017 decreased from 74.8 basis points for the year ended December 31, 2016 primarily due to the increase in proportion of total assets managed in separate accounts.

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

	Separate Accounts		Artisan Funds and Artisan Global Funds	
For the Years Ended December 31,	**2017**	**2016**	**2017**	**2016**
	(dollars in millions)			
Investment management fees	$293.0	$250.3	$502.6	$470.6
Weighted average fee	54.0 basis points	55.0 basis points	92.1 basis points	92.4 basis points
Percentage of ending AUM	50 %	49 %	50 %	51 %

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Operating Expenses

The increase in total operating expenses of $22.5 million, or 5%, for the year ended December 31, 2017, compared to the year ended December 31, 2016, was primarily a result of higher compensation expense due to increased revenues, additional post-IPO equity grants, and an increase in the number of employees, including costs incurred related to our eighth investment team founded in the fourth quarter of 2016. These increases were partially offset by decreases in third-party intermediary and pre-offering related equity compensation expenses.

Compensation and Benefits

	For the Years Ended December 31,		Period-to-Period	
	2017	**2016**	**$**	**%**
	(in millions)			
Salaries, incentive compensation and benefits [1]	$341.1	$312.6	$ 28.5	9 %
Restricted share-based award compensation expense	49.1	43.2	5.9	14 %
Total salaries, incentive compensation and benefits	390.2	355.8	34.4	10 %
Pre-offering related compensation - share-based awards	12.7	28.1	(15.4)	(55)%
Total compensation and benefits	**$402.9**	**$383.9**	**$ 19.0**	5 %

[1] Excluding restricted share-based award compensation expense

The increase in salaries, incentive compensation and benefits was driven primarily by a $21.5 million increase in incentive compensation paid to our investment and marketing professionals as a result of the increase in revenue. The remaining increase is primarily due to costs associated with an increase in the number of employees, including employees on our eighth investment team.

Restricted share-based award compensation expense increased $5.9 million primarily as a result of our January 2017 grant of 1,267,250 restricted stock awards and 1,250 restricted stock units of Class A common stock to certain of our employees.

Pre-offering related compensation expense, which consists of the amortization expense on pre-offering Class B awards decreased $15.4 million, as the remaining awards became fully vested during 2017. As of July 1, 2017, all Class B awards were fully vested.

Total salaries, incentive compensation and benefits was 49% of our revenues for the years ended December 31, 2017 and 2016.

Other operating expenses

Other operating expenses increased $3.5 million for the year ended December 31, 2017, compared to the year ended December 31, 2016, primarily due to a $3.1 million increase in general and administrative expenses, and a $1.9 million increase in communication and technology expense as a result of increased information subscriptions and market data costs.

The increases were partially offset by a $2.9 million decrease in distribution, servicing and marketing expenses as a result of a decrease in third-party intermediary expenses due to lower assets under management sourced through third-party intermediaries (across all channels) that charge a fee for administrative and distribution services, a portion of which is borne by Artisan.

Non-Operating Income (Expense)

Non-operating income (expense) for the year ended December 31, 2017 includes $290.9 million of income relating to changes in the estimate of the payment obligation under the tax receivable agreements, including changes relating to Tax Reform, compared to $0.7 million of income for the year ended December 31, 2016. The effect of changes in that estimate after the date of an exchange or sale is included in net income.

Non-operating income (expense) for the year ended December 31, 2017 also includes $4.2 million of income related to investment gains of consolidated investment products.

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Provision for Income Taxes

APAM's effective income tax rate for the years ended December 31, 2017 and 2016 was 73.6% and 22.9%, respectively. The rate increase was primarily due to Tax Reform as the tax rate used to measure our deferred tax assets decreased from 37.0% to 23.5%, which resulted in a reduction to our deferred tax assets of $352 million with a corresponding increase to the provision for income taxes for the year ended December 31, 2017. The increase in APAM's equity ownership in Holdings also increased the effective income tax rate. For the year ended December 31, 2017, approximately 38% of Holdings' earnings were not subject to corporate-level taxes compared to approximately 47% for the year ended December 31, 2016.

Earnings Per Share

Weighted average basic and diluted shares of Class A common stock outstanding were higher for the year ended December 31, 2017, compared to the year ended December 31, 2016, as a result of stock offerings, unit exchanges, and equity award grants. See Note 13, "Earnings Per Share" in the Notes to the Consolidated Financial Statements in Item 8 of this report for further discussion of earnings per share.

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Supplemental Non-GAAP Financial Information

Our management uses non-GAAP measures (referred to as “adjusted” measures) of net income and operating income to evaluate the profitability and efficiency of the underlying operations of our business and as a factor when considering net income available for distributions and dividends. These adjusted measures remove the impact of (1) pre-offering related compensation, (2) net gain (loss) on the tax receivable agreements (if any), (3) net investment gain (loss) of investment products, and (4) the adjustment to deferred taxes as a result of Tax Reform. These adjustments also remove the non-operational complexities of our structure by adding back non-controlling interests and assuming all income of Artisan Partners Holdings is allocated to APAM. Management believes these non-GAAP measures provide more meaningful information to analyze our profitability and efficiency between periods and over time. We have included these non-GAAP measures to provide investors with the same financial metrics used by management to manage the company.

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

- Adjusted net income represents net income excluding the impact of (1) pre-offering related compensation, (2) net gain (loss) on the tax receivable agreements (if any), (3) net investment gain (loss) of investment products, and (4) the adjustment to deferred taxes as a result of Tax Reform. 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 year ended December 31, 2018, and 37.0% for the years ended December 31, 2017 and 2016.
- Adjusted net income per adjusted share is calculated by dividing adjusted net income by adjusted shares. The number of adjusted shares is derived by assuming the vesting of all unvested Class A share-based awards and the exchange of all outstanding limited partnership units of Artisan Partners Holdings for Class A common stock of APAM on a one-for-one basis.
- Adjusted operating income represents the operating income of the consolidated company excluding pre-offering related compensation.
- Adjusted operating margin is calculated by dividing adjusted operating income by total revenues.
- Adjusted EBITDA represents adjusted net income before interest expense, income taxes, depreciation and amortization expense.

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

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

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

The adjustment to deferred taxes as a result of Tax Reform represents the non-cash increase in the provision for income taxes resulting from the change in federal corporate tax rates enacted during the December quarter of 2017. The tax rate used to measure deferred tax assets decreased from 37.0% to 23.5%, which resulted in a reduction to deferred tax assets of $352 million with a corresponding increase to the provision for income taxes. The reduction in certain deferred tax assets also resulted in a $290 million decrease in the amounts payable under the tax receivable agreements, which resulted in a corresponding increase to non-operating income.

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

	For the Years Ended December 31,		
	2018	2017	2016
	(in millions, except per share data)		
Reconciliation of non-GAAP financial measures:			
Net income attributable to Artisan Partners Asset Management Inc. (GAAP)	**$158.3**	**$49.6**	**$73.0**
Add back: Net income attributable to noncontrolling interests - Artisan Partners Holdings	91.1	99.0	100.0
Add back: Provision for income taxes	47.6	420.5	51.5
Add back: Pre-offering related compensation - share-based awards	—	12.7	28.1
Add back: Net (gain) loss on the tax receivable agreements	(0.3)	(290.9)	(0.7)
Add back: Net investment (gain) loss of investment products attributable to APAM	(1.1)	(1.9)	—
Less: Adjusted provision for income taxes	69.5	106.9	93.2
Adjusted net income (Non-GAAP)	**$226.1**	**$182.1**	**$158.7**
Average shares outstanding			
Class A common shares	48.9	44.6	38.1
Assumed vesting or exchange of:			
Unvested Class A restricted share-based awards	4.8	4.2	3.6
Artisan Partners Holdings units outstanding (noncontrolling interest)	23.3	26.8	32.8
Adjusted shares	**77.0**	**75.6**	**74.5**
Basic and diluted earnings per share (GAAP)	**$2.84**	**$0.75**	**$1.57**
Adjusted net income per adjusted share (Non-GAAP)	**$2.94**	**$2.41**	**$2.13**
Operating income (GAAP)	**$304.9**	**$286.4**	**$234.2**
Add back: Pre-offering related compensation - share-based awards	—	12.7	28.1
Adjusted operating income (Non-GAAP)	**$304.9**	**$299.1**	**$262.3**
Operating margin (GAAP)	**36.8%**	**36.0%**	**32.5%**
Adjusted operating margin (Non-GAAP)	**36.8%**	**37.6%**	**36.4%**
Net income attributable to Artisan Partners Asset Management Inc. (GAAP)	**$158.3**	**$49.6**	**$73.0**
Add back: Net income attributable to noncontrolling interests - Artisan Partners Holdings	91.1	99.0	100.0
Add back: Pre-offering related compensation - share-based awards	—	12.7	28.1
Add back: Net (gain) loss on the tax receivable agreements	(0.3)	(290.9)	(0.7)
Add back: Net investment (gain) loss of investment products attributable to APAM	(1.1)	(1.9)	—
Add back: Interest expense	11.2	11.4	11.7
Add back: Provision for income taxes	47.6	420.5	51.5
Add back: Depreciation and amortization	5.7	5.3	5.2
Adjusted EBITDA (Non-GAAP)	**$312.5**	**$305.7**	**$268.8**

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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 December 31, 2018 and December 31, 2017:

	December 31, 2018	December 31, 2017
	(in millions)	
Cash and cash equivalents	$160.5	$ 137.3
Accounts receivable	$67.7	$ 76.7
Seed investments[1]	$48.3	$ 40.3
Undrawn commitment on revolving credit facility	$100.0	$ 100.0

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

We manage our cash balances in order to fund our day-to-day operations. Accounts receivable primarily represent investment management fees that have been earned, but not yet received from our clients. We perform a review of our receivables on a monthly basis to assess collectability. As of December 31, 2018, none of our receivables were considered uncollectable.

We utilize capital to make seed investments in Artisan-sponsored funds to support the development of new strategies. As of December 31, 2018, the balance of all seed investments, including investments in consolidated investment products, was $48.3 million. The seed investments are generally redeemable at our discretion.

In August 2012, we issued $200 million in unsecured notes and entered into a $100 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.

In August 2017, we issued $60 million of Series D notes and used the proceeds to repay the $60 million Series A senior 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 million revolving credit facility was unused as of and for the year ended December 31, 2018.

In September 2017, we amended the 2012 Note Purchase Agreement with respect to the Series B and Series C notes that remain outstanding. Among other things, the amendment conformed certain terms and conditions applicable to the Series B and Series C notes to those applicable to the Series D notes. 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. Holdings maintained an investment grade rating for the year ended December 31, 2018.

These borrowings contain certain customary covenants including limitations on Artisan Partners Holdings' ability to: (i) incur additional indebtedness or liens, (ii) engage in mergers or other fundamental changes, (iii) sell or otherwise dispose of assets including equity interests, and (iv) make dividend payments or other distributions to Artisan Partners Holdings' partners (other than, among others, tax distributions paid to partners for the purpose of funding tax liabilities attributable to their interests) when a default occurred and is continuing or would result from such a distribution. In addition, in the event of a Change of Control (as defined in the Note Purchase Agreement) or if Artisan's average assets under management for a fiscal quarter is below $45 billion, Holdings is generally required to offer to pre-pay the notes. Artisan Partners Limited Partnership, a wholly-owned subsidiary of Holdings, has guaranteed Holdings' obligations under the terms of the Note Purchase Agreement.

In addition, covenants in the note purchase and revolving credit agreements require Artisan Partners Holdings to maintain the following financial ratios:

- leverage ratio (calculated as the ratio of consolidated total indebtedness on any date to consolidated EBITDA for the period of four consecutive fiscal quarters ended on or prior to such date) cannot exceed 3.00 to 1.00 (Artisan Partners Holdings' leverage ratio for the year ended December 31, 2018 was 0.5 to 1.00); and
- interest coverage ratio (calculated as the ratio of consolidated EBITDA for any period of four consecutive fiscal quarters to consolidated interest expense for such period) cannot be less than 4.00 to 1.00 for such period (Artisan Partners Holdings' interest coverage ratio for the year ended December 31, 2018 was 34.7 to 1.00).

Our failure to comply with any of the covenants or restrictions described above 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 December 31, 2018.

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$50 million of the unsecured notes are scheduled to mature in August 2019. Subject to board approval, lender negotiations and market conditions, we currently intend to refinance the $50 million 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 years endedDecember 31, 2018 and 2017 were as follows:

	For the Years Ended December 31,	
	2018	2017
	(in millions)	
Holdings Partnership Distributions to Limited Partners	$103.4	$115.8
Holdings Partnership Distributions to APAM	$217.4	$197.1
Total Holdings Partnership Distributions	**$320.8**	**$312.9**

On February 4, 2019, we, acting as the general partner of Artisan Partners Holdings, declared a distribution of $76.0 million payable by Artisan Partners Holdings on February 21, 2019 to holders of its partnership units, including APAM, of record on February 14, 2019.

APAM declared and paid the following dividends per share during the years ended December 31, 2018 and 2017:

Type of Dividend	Class of Stock	For the Years Ended December 31,	
		2018	2017
Quarterly	Common Class A	$2.40	$2.40
Special Annual	Common Class A	$0.79	$0.36

Our board of directors declared, effective February 4, 2019, a variable quarterly dividend of $0.56 per share with respect to the December 2018 quarter and a special dividend of $1.03. The combined amount, $1.59 per share of Class A common stock, will be paid on February 28, 2019 to shareholders of record as of the close of business on February 14, 2019.

The variable quarterly dividend of $0.56 per share represents approximately 80% of the cash generated in the December 2018 quarter and a pro-rata portion of 2018 tax savings related to our tax receivable agreements. The special dividend represents undistributed earnings from the first three quarters of 2018 and tax savings realized in 2017 after payments under 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 $369.4 million liability as of December 31, 2018. The liability generally represents 85% of the tax benefits APAM expects to realize as a result of the merger of an entity into APAM as part of the IPO Reorganization, our purchase of partnership units from limited partners of Holdings and the exchange of partnership units (for shares of Class A common stock or other consideration). The estimated liability assumes no material changes in the relevant tax law and that APAM earns sufficient taxable income to realize all tax benefits subject to the TRAs. As previously discussed, the TRA liability was reduced as a result of Tax Reform enacted in December 2017. Future increases or decreases in 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.

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The actual increase in tax basis, as well as the amount and timing of any payments under these agreements, will vary depending upon a number of factors, including the timing of sales or exchanges by the holders of limited partnership units, the price of the Class A common stock at the time of such sales or exchanges, whether such sales or exchanges are taxable, the amount and timing of the taxable income APAM generates in the future and the tax rate then applicable and the portion of APAM's payments under the TRAs constituting imputed interest or depreciable basis or amortizable basis. In certain cases, payments under the TRAs may be accelerated and/or significantly exceed the actual benefits we realize in respect of the tax attributes subject to the TRAs. In such cases, we intend to fund those payments with cash on hand, although we may have to borrow funds depending on the amount and timing of the payments. During the year ended December 31, 2018, payments of $36.2 million, including interest, were made in accordance with the TRA agreements. We expect to make payments of approximately $25 million in 2019 related to the TRAs. The decrease in projected 2019 TRA payments compared to 2018 is primarily due to the decrease in the U.S. federal corporate tax rate as a result of Tax Reform.

Cash Flows

	For the Years Ended December 31,		
	2018	**2017**	**2016**
	(in millions)		
Cash, cash equivalents and restricted cash as of January 1	**$159.8**	**$157.4**	**$167.1**
Net cash provided by operating activities	333.3	226.0	270.4
Net cash used in investing activities	(14.3)	(4.7)	(2.4)
Net cash used in financing activities	(263.5)	(218.9)	(277.7)
Net impact of deconsolidation of consolidated investment products	(39.8)	—	—
Cash, cash equivalents and restricted cash as of December 31,	**$175.5**	**$159.8**	**$157.4**

Year Ended December 31, 2018 Compared to Year Ended December 31, 2017

Net cash provided by operating activities increased $107.3 million during the year ended December 31, 2018 primarily due to a $51.0 million decrease in cash used by consolidated investment products, as well as increased revenues and operating income resulting from an increase in average assets under management. For the year ended December 31, 2018 compared to the year ended December 31, 2017, our operating income, excluding share-based and pre-offering related compensation expenses, increased $9.6 million. Timing differences in working capital accounts increased operating cash flows by $43.0 million in 2018 compared to 2017, which was primarily due to a decrease in accounts receivable as well as the timing of executive bonus payments. The cash incentive compensation earned by executive officers for the year ended December 31, 2018 will be paid in the first quarter of 2019.

Investing activities consist primarily of acquiring and selling property and equipment, leasehold improvements and the purchase and sale of investment securities. Net cash used in investing activities increased $9.6 million during the year ended December 31, 2018 primarily due to an $8.0 million increase in acquisition of property and equipment and leasehold improvements. The increase in capital expenditures was driven by construction activity at four office locations in 2018 in preparation for investment team relocations.

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 in financing activities increased $44.6 million during the year ended December 31, 2018 primarily due to a $36.8 million increase in dividends paid, and a $5.9 million increase in payments of amounts owed under the TRAs, partially offset by a $12.4 million decrease in distributions paid to limited partners. Financing cash flows are also impacted by third party capital contributions made to consolidated investment products, which decreased $13.9 million in 2018 compared to 2017.

During the year ended December 31, 2018, the Company determined that it no longer has a controlling financial interest in an investment product that was previously consolidated. The deconsolidation of the investment product resulted in a $39.8 million decrease in cash and cash equivalents.

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Year Ended December 31, 2017 Compared to Year Ended December 31, 2016

Net cash provided by operating activities decreased $44.4 million for the year ended December 31, 2017 primarily due to $70.6 million of net operating cash used by consolidated investment products, partially offset by increased revenues and operating income resulting from the decrease in average assets under management. For the year ended December 31, 2017, compared to the year ended December 31, 2016, our operating income, excluding share-based and pre-offering related compensation expenses, increased $42.8 million. Timing differences in working capital accounts reduced operating cash flows by $14.5 million in 2017, compared to 2016.

Net cash used in investing activities increased $2.3 million during the year ended December 31, 2017 primarily due to a $3.8 million decrease in net proceeds from the sale of investment securities, partially offset by a $1.4 million decrease in acquisition of property and equipment and leasehold improvements.

Net cash used by financing activities decreased $58.8 million during the year ended December 31, 2017 primarily due to $60.5 million of net subscriptions in consolidated investment products. Distributions to limited partners decreased $18.1 million and dividends paid increased $15.6 million due to the increase in APAM’s equity ownership in Holdings during the year ended December 31, 2017 compared to the year ended December 31, 2016.

Certain Contractual Obligations

The following table sets forth our contractual obligations under certain contracts as of December 31, 2018:

	Payments Due by Period				
	Total	**Less than 1 year**	**1-3 Years**	**3-5 Years**	**More than 5 Years**
	(in millions)				
Principal payments on borrowings	$200.0	$ 50.0	$ —	$ 90.0	$60.0
TRAs [(1)]	369.4	—	—	—	—
Interest payable	42.3	10.7	16.0	10.5	5.1
Lease obligations	128.0	14.1	30.6	26.1	57.2
Total Contractual Obligations	$739.7	$ 74.8	$ 46.6	$ 126.6	$122.3

(1) The estimated payments under the TRAs as of December 31, 2018 are described above under “Liquidity and Capital Resources”. However, 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 the exchanges or sales. The actual amount and timing of payments associated with our existing payable under our tax receivable agreements 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 pay approximately $25 million in 2019 related to the TRAs.

Off-Balance Sheet Arrangements

As of December 31, 2018, we did not have any off-balance sheet arrangements that have, or are reasonably likely to have, a material current or future effect on our financial condition, results of operations, liquidity or capital resources.

Critical Accounting Policies and Estimates

The accompanying consolidated financial statements were prepared in accordance with GAAP, and related rules and regulations of the SEC. The preparation of financial statements in conformity with GAAP requires management to make estimates or assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods presented. Actual results could differ from these estimates or assumptions and may have a material effect on the consolidated financial statements.

Accounting policies are an integral part of our financial statements. A thorough understanding of these accounting policies is essential when reviewing our reported results of operations and our financial condition. Management believes that the critical accounting policies and estimates discussed below involve additional management judgment due to the sensitivity of the methods and assumptions used.

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Consolidation

We consolidate all subsidiaries or other entities in which we have a controlling financial interest. We assess each legal entity in which we hold a variable interest on a quarterly basis to determine whether consolidation is appropriate. We determine whether we have a controlling financial interest in the entity by evaluating whether the entity is a voting interest entity ("VOE") or a variable interest entity ("VIE") under GAAP. Assessing whether an entity is a VIE or VOE and if it requires consolidation involves judgment and analysis. Factors considered in this assessment include the legal organization of the entity, our equity ownership and contractual involvement with the entity and any related party or de facto agent implications of our involvement with the entity.

Voting Interest Entities-A VOE is an entity in which (i) the total equity investment at risk is sufficient to enable the entity to finance its activities independently and (ii) the equity holders at risk have the obligation to absorb losses, the right to receive residual returns and the right to direct the activities of the entity that most significantly impact the entity's economic performance, whereby the equity investment has all the characteristics of a controlling financial interest. As a result, voting rights are a key driver of determining which party, if any, should consolidate the entity. Under the VOE model, controlling financial interest is generally defined as a majority ownership of voting interests.

Variable Interest Entities-A VIE is an entity that lacks one or more of the characteristics of a VOE. In accordance with GAAP, an enterprise must consolidate all VIEs of which it is the primary beneficiary. We determine if a legal entity meets the definition of a VIE by considering whether the fund's equity investment at risk is sufficient to finance its activities without additional subordinated financial support and whether the fund's at-risk equity holders absorb any losses, have the right to receive residual returns and have the right to direct the activities of the entity most responsible for the entity's economic performance.

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. We will generally consolidate VIEs in which we meet the power criteria and hold an equity ownership interest of greater than 10%.

We serve as the investment adviser for Artisan Funds, a family of mutual funds registered with the SEC under the Investment Company Act of 1940, and investment manager of Artisan Global Funds, a family of Ireland-based UCITS. 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 the right 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, 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 lack the ability to remove Artisan as the general partner, or otherwise divest Artisan of its control of the funds.

Seed Investments - We generally make seed investments in sponsored investment portfolios at the portfolio's formation. If the seed investment results in a controlling financial interest, we will consolidate the investment, and the underlying individual securities will be accounted for based on their classification at the underlying fund. If the seed investment results in significant influence, but not control, the investment will be accounted for as an equity method investment. Significant influence is generally considered to exist with equity ownership levels between 20% and 50%, although other factors are considered. Seed investments in which we do not have a controlling financial interest or significant influence are accounted for as investment securities. These investments are measured at fair value in the Consolidated Statement of Financial Condition. Realized and unrealized gains (losses) on investment securities are recorded in net investment income in the Consolidated Statements of Operations. Dividend income from these investments is recognized when earned and is included in net investment income in the Consolidated Statements of Operations.

Revenue Recognition

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

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

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

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

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

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

With the exception of the assets managed by our Credit team (which represented approximately 3.0% of our assets under management at December 31, 2018), the portfolios of Artisan Funds and Artisan Global Funds, as well as the portfolios we manage for our separate account clients, are invested principally in publicly-traded equity securities for which public market values are readily available, with a portion of each portfolio held in cash or cash-like instruments.

Income Taxes

We operate in numerous states and countries and must allocate our income, expenses, and earnings under the various laws and regulations of each of these taxing jurisdictions. Accordingly, our provision for income taxes represents our total estimate of the liability for income taxes that we have incurred in doing business each year in all of our locations. Annually, we file tax returns that represent our filing positions with each jurisdiction and settle our tax return liabilities. Each jurisdiction has the right to audit those tax returns and may take different positions with respect to income and expense allocations and taxable earnings determinations. Because the determination of our annual income tax provision is subject to judgments and estimates, actual results may vary from those recorded in our financial statements. We recognize additions to and reductions in income tax expense during a reporting period that pertains to prior period provisions as our estimated liabilities are revised and our actual tax returns and tax audits are completed.

Our management is required to exercise judgment in developing our provision for income taxes, including the determination of deferred tax assets and liabilities and any valuation allowance that might be required against deferred tax assets. As of December 31, 2018, we have not recorded a valuation allowance on any deferred tax assets. In the event that sufficient taxable income of the same character does not result in future years, among other things, a valuation allowance for certain of our deferred tax assets may be required.

Payments pursuant to the Tax Receivable Agreements ("TRAs")

We have recorded a liability of $369.4 million as of December 31, 2018, representing 85% of the estimated future tax benefits subject to the TRAs. The actual 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. The expected payment obligation assumes no additional uncertain tax positions that would impact the TRAs.

New or Revised Accounting Standards

See Note 2, "Summary of Significant Accounting Policies — Recent accounting pronouncements" to the Consolidated Financial Statements included in Item 8 of Part II of this Form 10-K.

Item 7A. Qualitative and Quantitative Disclosures Regarding Market Risk

Market Risk

Our exposure to market risk is directly related to the role of our operating company as an investment adviser for the pooled vehicles and separate accounts it manages. Essentially all of our revenues are derived from investment management agreements with these vehicles and accounts. Under these agreements, the investment management fees we receive are generally based on the value of our assets under management and our fee rates. Accordingly, if our assets under management decline as a result of market depreciation, our revenues and net income will also decline. In addition, such a decline could cause our clients to withdraw their funds in favor of investments believed to offer higher returns or lower risk, which would cause our revenues to decline further.

The value of our assets under management was $96.2 billion as of December 31, 2018. A 10% increase or decrease in the value of our assets under management, if proportionately distributed over all our investment strategies, products and client relationships, would cause an annualized increase or decrease in our revenues of approximately $70.1 million at our current weighted average fee rate of 73 basis points. Because of our declining rates of fee for larger relationships and differences in our rates of fee across investment strategies, a change in the composition of our assets under management, in particular an increase in the proportion of our total assets under management attributable to strategies, clients or relationships with lower effective rates of fees, could have a material negative impact on our overall weighted average rate of fee. The same 10% increase or decrease in the value of our total assets under management, if attributed entirely to a proportionate increase or decrease in the assets of each of the Artisan Funds and Artisan Global Funds, to which we provide a range of services in addition to those provided to separate accounts, would cause an annualized increase or decrease in our revenues of approximately $88.4 million at the Artisan Funds and Artisan Global Funds aggregate weighted average fee of 92 basis points. If the same 10% increase or decrease in the value of our total assets under management was attributable entirely to a proportionate increase or decrease in the assets of each separate account we manage, it would cause an annualized increase or decrease in our revenues of approximately $51.8 million at the current weighted average fee rate across all of our separate accounts of 54 basis points.

As is customary in the asset management industry, clients invest in particular strategies to gain exposure to certain asset classes, which exposes their investment to the benefits and risks of those asset classes. Because we believe that our clients invest in each of our strategies in order to gain exposure to the portfolio securities of the respective strategies and may implement their own risk management program or procedures, we have not adopted a corporate-level risk management policy regarding client assets, nor have we attempted to hedge at the corporate level or within individual strategies the market risks that would affect the value of our overall assets under management and related revenues. Some of these risks (*e.g.*, sector risks and currency risks) are inherent in certain strategies, and clients may invest in particular strategies to gain exposure to particular risks. While negative returns in our investment strategies and net client cash outflows do not directly reduce the assets on our balance sheet (because the assets we manage are owned by our clients, not us), any reduction in the value of our assets under management would result in a reduction in our revenues.

We also are subject to market risk from a decline in the prices of marketable securities that we own. The total value of marketable securities we owned, including our direct equity investments in consolidated investment products, was $48.3 million as of December 31, 2018. We invested in certain of the series of Artisan Private Funds, Artisan Funds and Artisan Global Funds in amounts sufficient to cover certain organizational expenses and to ensure that the funds had sufficient assets at the commencement of their operations to build a viable investment portfolio. Assuming a 10% increase or decrease in the values of our total marketable securities, the fair value would increase or decrease by $4.8 million at December 31, 2018. Management regularly monitors the value of these investments; however, given their nature and relative size, we have not adopted a specific risk management policy to manage the associated market risk. Due to the nature of our business, we believe that we do not face any material risk from inflation.

Exchange Rate Risk

A substantial portion of the accounts that we advise, or sub-advise, hold investments that are denominated in currencies other than the U.S. dollar. Movements in the rate of exchange between the U.S. dollar and the underlying foreign currency affect the values of assets held in accounts we manage, thereby affecting the amount of revenues we earn. The value of the assets we manage was $96.2 billion as of December 31, 2018. As of December 31, 2018, approximately 54% of our assets under management across our investment strategies were invested in strategies that primarily invest in securities of non-U.S. companies and approximately 48% of our assets under management were invested in securities denominated in currencies other than the U.S. dollar. To the extent our assets under management are denominated in currencies other than the U.S. dollar, the value of those assets under management will decrease with an increase in the value of the U.S. dollar, or increase with a decrease in the value of the U.S. dollar. Each investment team monitors its own exposure to exchange rate risk and makes decisions on how to manage that risk in the portfolios managed by that team.

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We have not adopted a corporate-level risk management policy to manage this exchange rate risk. Assuming that 48% of our assets under management is invested in securities denominated in currencies other than the U.S. dollar and excluding the impact of any hedging arrangements, a 10% increase or decrease in the value of the U.S. dollar would decrease or increase the fair value of our assets under management by $4.6 billion, which would cause an annualized increase or decrease in revenues of approximately $33.5 million at our current weighted average fee rate of 73 basis points.

We operate in several foreign countries of which the United Kingdom is the most prominent. We incur operating expenses and have foreign currency-denominated assets and liabilities associated with these operations, although our revenues are predominately realized in USD. We do not believe that foreign currency fluctuations materially affect our results of operations.

Interest Rate Risk

At certain times, we invest our available cash balances in money market mutual funds that invest primarily in U.S. Treasury or agency-backed money market instruments. These funds attempt to maintain a stable net asset value but interest rate changes or other market risks may affect the fair value of those funds' investments and, if significant, could result in a loss of investment principal. Interest rate changes affect the income we earn from our excess cash balances. As of December 31, 2018, we invested $57.8 million of our available cash in money market funds that invested solely in U.S. Treasuries. Given the current yield on these funds, interest rate changes would not have a material impact on the income we earn from these investments. The remaining portion of our cash was held in demand deposit accounts.

Interest rate changes may affect the amount of our interest payments in connection with our revolving credit agreement, and thereby affect future earnings and cash flows. As of December 31, 2018, there were no borrowings outstanding under the revolving credit agreement.

The strategies managed by our Credit Team, which had $2.9 billion of assets under management as of December 31, 2018, invest in fixed income securities. The values of debt instruments held by the strategy may fall in response to increases in interest rates, which would reduce our revenues.

Item 8. Financial Information and Supplementary Data

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and
Stockholders of Artisan Partners Asset Management Inc.:

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated statements of financial condition of Artisan Partners Asset Management Inc. and its subsidiaries (the "Company") as of December 31, 2018 and 2017, and the related consolidated statements of operations, of comprehensive income, of changes in stockholders' equity and of cash flows for each of the three years in the period ended December 31, 2018, including the related notes (collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2018 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the Report of Management on Internal Control over Financial Reporting appearing under Item 9A "Controls and Procedures". Our responsibility is to express opinions on the Company's consolidatedfinancial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

Milwaukee, WI
February 20, 2019

We have served as the Company's auditor since 1995.

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

	At December 31,	
	2018	**2017**
ASSETS		
Cash and cash equivalents	$ 160,463	$ 137,286
Accounts receivable	67,691	76,693
Investment securities	18,109	4,978
Prepaid expenses	9,881	8,969
Property and equipment, net	29,138	21,025
Restricted cash	629	629
Deferred tax assets	429,128	429,212
Other	3,793	4,395
Assets of consolidated investment products		
Cash and cash equivalents	14,443	21,881
Accounts receivable and other	5,566	16,768
Investment assets, at fair value	66,173	115,319
Total assets	$ 805,014	$ 837,155
LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS, AND STOCKHOLDERS' EQUITY		
Accounts payable, accrued expenses, and other	$ 16,772	$ 16,656
Accrued incentive compensation	12,689	2,911
Deferred lease obligations	10,449	6,363
Borrowings	199,296	199,129
Amounts payable under tax receivable agreements	369,355	385,413
Liabilities of consolidated investment products		
Accounts payable, accrued expenses, and other	4,712	8,180
Investment liabilities, at fair value	16,905	47,857
Total liabilities	$ 630,178	$ 666,509
Commitments and contingencies		
Redeemable noncontrolling interests	34,349	62,581
Common stock		
Class A common stock ($0.01 par value per share, 500,000,000 shares authorized, 54,071,188 and 50,463,126 shares outstanding at December 31, 2018 and December 31, 2017, respectively)	541	505
Class B common stock ($0.01 par value per share, 200,000,000 shares authorized, 8,645,249 and 11,922,192 shares outstanding at December 31, 2018 and December 31, 2017, respectively)	86	119
Class C common stock ($0.01 par value per share, 400,000,000 shares authorized, 14,226,435 and 13,184,527 shares outstanding at December 31, 2018 and December 31, 2017, respectively)	142	132
Additional paid-in capital	97,553	147,910
Retained earnings (deficit)	38,617	(37,870)
Accumulated other comprehensive income (loss)	(1,895)	(873)
Total Artisan Partners Asset Management Inc. stockholders' equity	135,044	109,923
Noncontrolling interest - Artisan Partners Holdings	5,443	(1,858)
Total stockholders' equity	$ 140,487	$ 108,065
Total liabilities, redeemable noncontrolling interests, and stockholders' equity	$ 805,014	$ 837,155

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

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

	For the Years Ended December 31,		
	2018	2017	2016
Revenues			
Management fees	$825,679	$795,276	$719,778
Performance fees	2,956	348	1,081
Total revenues	$828,635	$795,624	$720,859
Operating Expenses			
Compensation and benefits			
Salaries, incentive compensation and benefits	413,166	390,202	355,835
Pre-offering related compensation - share-based awards	—	12,678	28,080
Total compensation and benefits	413,166	402,880	383,915
Distribution, servicing and marketing	26,561	29,620	32,516
Occupancy	18,700	14,490	13,076
Communication and technology	37,164	34,073	32,125
General and administrative	28,103	28,150	24,993
Total operating expenses	523,694	509,213	486,625
Total operating income	304,941	286,411	234,234
Non-operating income (expense)			
Interest expense	(11,223)	(11,449)	(11,653)
Net investment gain (loss) of consolidated investment products	5,721	4,241	—
Net investment income	2,098	1,123	1,253
Net gain (loss) on the tax receivable agreements	251	290,919	650
Total non-operating income (expense)	(3,153)	284,834	(9,750)
Income before income taxes	301,788	571,245	224,484
Provision for income taxes	47,598	420,508	51,483
Net income before noncontrolling interests	254,190	150,737	173,001
Less: Net income attributable to noncontrolling interests - Artisan Partners Holdings	91,054	99,038	99,971
Less: Net income attributable to noncontrolling interests - consolidated investment products	4,827	2,100	—
Net income attributable to Artisan Partners Asset Management Inc.	$158,309	$49,599	$73,030
Basic and diluted earnings per share	$2.84	$0.75	$1.57
Basic and diluted weighted average number of common shares outstanding	48,862,435	44,647,318	38,137,810
Dividends declared per Class A common share	$3.19	$2.76	$2.80

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

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

	For the Years Ended December 31,		
	2018	**2017**	**2016**
Net income before noncontrolling interests	$254,190	$150,737	$173,001
Other comprehensive income (loss), net of tax			
Unrealized gain (loss) on investment securities:			
Unrealized gain (loss) on investment securities, net of tax of $0, $131 and ($20), respectively	—	542	974
Less: reclassification adjustment for net gains included in net income	—	159	1,073
Net unrealized gain (loss) on investment securities	—	383	(99)
Foreign currency translation gain (loss)	(1,002)	1,277	(2,130)
Total other comprehensive income (loss)	(1,002)	1,660	(2,229)
Comprehensive income	253,188	152,397	170,772
Comprehensive income attributable to noncontrolling interests - Artisan Partners Holdings	90,816	99,922	99,015
Comprehensive income attributable to noncontrolling interests - consolidated investment products	4,827	2,100	—
Comprehensive income attributable to Artisan Partners Asset Management Inc.	$157,545	$50,375	$71,757

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

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ARTISAN PARTNERS ASSET MANAGEMENT INC.
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)	Noncontrolling interest - Artisan Partners Holdings	Total stockholders equity	Redeemable non-controlling interest
Balance at January 1, 2016	$ 394	$ 183	$ 157	$ 116,448	$ 13,238	$ (375)	$ (13,494)	$ 116,551	$ —
Net income	—	—	—	—	73,030	—	99,971	173,001	—
Other comprehensive income - foreign currency translation	—	—	—	—	—	(1,192)	(938)	(2,130)	—
Other comprehensive income - available for sale investments, net of tax	—	—	—	—	—	(30)	(64)	(94)	—
Cumulative impact of changes in ownership of Artisan Partners Holdings LP, net of tax	—	—	—	(3,332)	—	(51)	3,378	(5)	—
Amortization of equity-based compensation	—	—	—	40,923	(408)	—	31,481	71,996	—
Deferred tax assets, net of amounts payable under tax receivable agreements	—	—	—	8,439	—	—	—	8,439	—
Issuance of Class A common stock, net of issuance costs	—	—	—	(22)	—	—	—	(22)	—
Forfeitures and employee/partner terminations	—	(17)	15	2	—	—	—	—	—
Issuance of restricted stock awards	11	—	—	(11)	—	—	—	—	—
Employee net share settlement	—	—	—	(422)	—	—	(340)	(762)	—
Exchange of subsidiary equity	16	(15)	(1)	—	—	—	—	—	—
Distributions	—	—	—	—	—	—	(133,876)	(133,876)	—
Dividends	—	—	—	(42,804)	(72,465)	—	(115)	(115,384)	—
Balance at December 31, 2016	$ 421	$ 151	$ 171	$ 119,221	$ 13,395	$ (1,648)	$ (13,997)	$ 117,714	$ —
Net income	—	—	—	—	49,599	—	99,038	148,637	2,100
Other comprehensive income - foreign currency translation	—	—	—	—	—	830	447	1,277	—
Other comprehensive income - available for sale investments, net of tax	—	—	—	—	—	215	173	388	—
Cumulative impact of changes in ownership of Artisan Partners Holdings LP, net of tax	—	—	—	(5,994)	—	(270)	6,259	(5)	—
Amortization of equity-based compensation	—	—	—	40,177	—	—	22,715	62,892	—
Deferred tax assets, net of amounts payable under tax receivable agreements	—	—	—	25,922	—	—	—	25,922	—
Issuance of Class A common stock, net of issuance costs	56	—	—	161,980	—	—	—	162,036	—
Forfeitures and employee/partner terminations	—	(1)	1	—	—	—	—	—	—
Issuance of restricted stock awards	13	—	—	(13)	—	—	—	—	—
Employee net share settlement	—	—	—	(891)	—	—	(586)	(1,477)	—
Exchange of subsidiary equity	15	(10)	(5)	—	—	—	—	—	—
Purchase of equity and subsidiary equity	—	(21)	(35)	(162,438)	—	—	—	(162,494)	—
Capital contributions, net	—	—	—	—	—	—	—	—	60,481
Distributions	—	—	—	—	—	—	(115,804)	(115,804)	—
Dividends	—	—	—	(30,054)	(100,864)	—	(103)	(131,021)	—
Balance at December 31, 2017	$ 505	$ 119	$ 132	$ 147,910	$ (37,870)	$ (873)	$ (1,858)	$ 108,065	$ 62,581

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

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

	Class A Common Stock	Class B Common Stock	Class C Common Stock	Additional Paid-in Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Noncontrolling 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 (loss)	—	—	—	—	158,309	—	91,054	249,363	4,827
Other comprehensive income - foreign currency translation	—	—	—	—	—	(717)	(285)	(1,002)	—
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	—	—	—	(4,878)	—	(45)	4,923	—	—
Amortization of equity-based compensation	—	—	—	37,589	—	—	15,965	53,554	—
Deferred tax assets, net of amounts payable under tax receivable agreements	—	—	—	4,376	—	—	—	4,376	—
Issuance of Class A common stock, net of issuance costs	6	—	—	21,283	—	—	—	21,289	—
Forfeitures and employee/partner terminations	5	(20)	15	—	—	—	—	—	—
Issuance of restricted stock awards	15	—	—	(15)	—	—	—	—	—
Employee net share settlement	(2)	—	—	(1,742)	—	—	(820)	(2,564)	—
Exchange of subsidiary equity	12	(7)	(5)	—	—	—	—	—	—
Purchase of equity and subsidiary equity	—	(6)	—	(21,472)	—	—	—	(21,478)	—
Capital contributions, net	—	—	—	—	—	—	—	—	46,572
Impact of deconsolidation of CIPs	—	—	—	—	—	—	—	—	(79,631)
Distributions	—	—	—	—	—	—	(103,434)	(103,434)	—
Dividends	—	—	—	(85,498)	(82,180)	—	(102)	(167,780)	—
Balance at December 31, 2018	$ 541	$ 86	$ 142	$ 97,553	$ 38,617	$ (1,895)	$ 5,443	$ 140,487	$ 34,349

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

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

	For the Years Ended December 31,		
	2018	2017	2016
Cash flows from operating activities			
Net income before noncontrolling interests	$254,190	$150,737	$173,001
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	5,668	5,297	5,272
Deferred income taxes	24,863	395,416	33,960
Net (gain) loss on seed investment securities	(688)	(519)	(1,073)
Net (gain) loss on the tax receivable agreements	(251)	(290,919)	(650)
Loss on disposal of property and equipment	18	69	108
Amortization of debt issuance costs	457	452	448
Share-based compensation	53,554	62,892	71,996
Net investment (gain) loss of consolidated investment products	(5,721)	(4,241)	—
Purchase of investments by consolidated investment products	(643,548)	(252,047)	—
Proceeds from sale of investments by consolidated investment products	611,117	190,353	—
Change in assets and liabilities resulting in an increase (decrease) in cash:			
Accounts receivable	9,002	(16,955)	318
Prepaid expenses and other assets	(2,275)	1,629	(4,898)
Accounts payable and accrued expenses	10,027	(9,202)	(3,520)
Class B liability awards	—	(506)	(5,096)
Deferred lease obligations	4,086	2,391	494
Net change in operating assets and liabilities of consolidated investment products	12,823	(8,893)	—
Net cash provided by operating activities	333,322	225,954	270,360
Cash flows from investing activities			
Acquisition of property and equipment	(2,834)	(1,578)	(2,933)
Leasehold improvements	(11,007)	(4,257)	(4,343)
Proceeds from sale of investment securities	—	6,382	8,961
Purchase of investment securities	(500)	(5,250)	(4,014)
Net cash used in investing activities	(14,341)	(4,703)	(2,329)

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

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

	For the Years Ended December 31,		
	2018	2017	2016
Cash flows from financing activities			
Partnership distributions	(103,434)	(115,804)	(133,876)
Dividends paid	(167,780)	(131,021)	(115,384)
Payment of debt issuance costs	—	(512)	—
Proceeds from issuance of notes payable	—	60,000	—
Principal payments on notes payable	—	(60,000)	—
Payment under the tax receivable agreements	(36,111)	(30,234)	(27,685)
Net proceeds from issuance of common stock	21,478	162,494	—
Payment of costs directly associated with the issuance of Class A common stock	(166)	(294)	—
Purchase of equity and subsidiary equity	(21,478)	(162,494)	—
Taxes paid related to employee net share settlement	(2,564)	(1,477)	(762)
Capital contributions to consolidated investment products	46,572	60,481	—
Net cash used in financing activities	(263,483)	(218,861)	(277,707)
Net increase (decrease) in cash and cash equivalents	55,498	2,390	(9,676)
Net cash impact of deconsolidation of CIPs	(39,759)	—	—
Cash and cash equivalents			
Beginning of period	159,796	157,406	167,082
End of period	**$175,535**	**$159,796**	**$157,406**
Cash, cash equivalents and restricted cash as of the end of the period			
Cash and cash equivalents	$160,463	$137,286	$156,777
Restricted cash	629	629	629
Cash and cash equivalents of consolidated investment products	14,443	21,881	—
Cash, cash equivalents and restricted cash	**$175,535**	**$159,796**	**$157,406**
Supplementary information			
Noncash activity:			
Establishment of deferred tax assets	$24,679	$146,241	$33,941
Establishment of amounts payable under tax receivable agreements	20,303	120,320	25,480
Increase in investment securities due to deconsolidation of CIPs	11,381	—	—
Cash paid for:			
Interest on borrowings	$10,694	$11,019	$11,108
Income tax	20,731	25,296	18,621

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

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

Note 1. Nature of Business and Organization

Nature of Business

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

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

Organization

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

As the sole general partner, APAM controls the business and affairs of Holdings. As a result, APAM consolidates Holdings' financial statements and records a noncontrolling interest for the equity interests in Holdings held by the limited partners of Holdings. At December 31, 2018, APAM held approximately 70% of the equity ownership interest in Holdings.

Holdings, together with its wholly owned subsidiary, Artisan Investments GP LLC ("AIGP"), controls a 100% interest in Artisan Partners Limited Partnership ("APLP"), a multi-product investment management firm that is the principal operating subsidiary of Artisan Partners Holdings. APLP is registered as an investment adviser with the U.S. Securities and Exchange Commission under the Investment Advisers Act of 1940. APLP provides investment advisory services to 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.

2018 Follow-On Offering

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

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

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Holdings Unit Exchanges

Limited partners of Artisan Partners Holdings are entitled to exchange partnership units (along with a corresponding number of shares of Class B or C common stock of APAM) for shares of Class A common stock from time to time (the “Holdings Common Unit Exchanges”). The following partnership units were exchanged for APAM Class A common stock during the year ended December 31, 2018:

	Total Common Units Exchanged	Class A Common Units	Class B Common Units	Class E Common Units
Common units exchanged on March 1, 2018	958,288	499,222	449,066	10,000
Common units exchanged on April 2, 2018	452,628	—	—	452,628
Common units exchanged on May 9, 2018	62,000	—	57,000	5,000
Common units exchanged on August 8, 2018	66,000	—	50,000	16,000
Common units exchanged on November 7, 2018	51,695	—	50,000	1,695
Total Units Exchanged	**1,590,611**	**499,222**	**606,066**	**485,323**

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

Note 2. Summary of Significant Accounting Policies

Basis of presentation

The accompanying consolidated financial statements were prepared in accordance with U.S. generally accepted accounting principles (“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 Consolidated Financial Statements. As of December 31, 2018, Artisan had a controlling financial interest in four sub-funds of Artisan Global Funds and one Artisan Private Fund and, as a result, these funds are included in Artisan’s Consolidated Financial Statements. Because these consolidated investment products meet the definition of investment companies under U.S. GAAP, Artisan has retained the specialized industry accounting principles for investment companies in its Consolidated Financial Statements. See Note 6, “Variable Interest Entities and Consolidated Investment Products” for additional details.

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Operating segments

Artisan operates in one segment, the investment management industry. Artisan provides investment management services to separate accounts, mutual funds and other pooled investment vehicles. Management assesses the financial performance of these vehicles on a combined basis.

Cash and cash equivalents

Artisan defines cash and cash equivalents as money market funds and other highly liquid investments with original maturities of 90 days or less. Cash and cash equivalents are stated at cost, which approximates fair value due to the short-term nature and liquidity of these financial instruments. For disclosure purposes, cash equivalents are categorized as Level 1 in the fair value hierarchy. Cash and cash equivalents are subject to credit risk and were primarily maintained in demand deposit accounts with financial institutions or treasury money market funds. Interest and dividends related to cash and cash equivalents is recorded in net investment income in the Consolidated Statements of Operations.

Foreign currency translation

Assets and liabilities of foreign operations whose functional currency is not the U.S. dollar are translated at prevailing year-end exchange rates. Revenue and expenses of such foreign operations are translated at average exchange rates during the year. The net effect of the translation adjustment for foreign operations is included in other comprehensive income (loss) in the Consolidated Statements of Comprehensive Income. The cumulative effect of translation adjustments is included in accumulated other comprehensive income (loss) and noncontrolling interest - Artisan Partners Holdings in the Consolidated Statements of Financial Condition, based on period-end ownership levels.

Accounts receivable

Accounts receivable are carried at invoiced amounts and consist primarily of investment management fees that have been earned, but not yet received from clients. Due to the short-term nature of the receivables, the carrying values of these assets approximate fair value. The accounts receivable balance does not include any allowance for doubtful accounts as Artisan believes all accounts receivable balances are fully collectible. There has not been any bad debt expense recorded for the years ended December 31, 2018, 2017 and 2016.

Investment securities

Investment securities consist of unconsolidated investments in shares of Artisan Funds, Artisan Global Funds, and Artisan Private Funds. Investments provide exposure to various risks, including price risk (the risk of a potential future decline in value of the investment) and foreign currency risk. Investments are carried at fair value based on net asset values as of the valuation date.

Realized gains (losses) on unconsolidated investment securities are recorded in net investment income in the Consolidated Statements of Operations. Dividend income from these investments is recognized when earned and is also included in net investment income. As of January 1, 2018, accounting guidance requires all equity investments to be measured at fair value with changes in fair value recognized through net income. As a result, 2018 net investment income also includes unrealized investment gains (losses) related to unconsolidated investment products. Prior to 2018, unrealized investments gains (losses) were recorded as a component of other comprehensive income in equity.

Property and equipment

Property and equipment are carried at cost, less accumulated depreciation. Depreciation is generally recognized on a straight-line basis over the estimated useful lives of the respective assets, which range from three to seven years. Depreciation for leasehold improvements is recognized over the applicable life of the asset class, typically the lesser of the economic useful life of the improvement or the remaining term of the lease. Property and equipment is tested for impairment when there is an indication that the carrying amount of an asset may not be recoverable. When an asset is determined to not be recoverable, the impairment loss is measured based on the excess, if any, of the carrying value of the asset over its fair value.

Restricted cash

Restricted cash represents cash that is restricted as collateral on a standby letter of credit related to a lease obligation.

Cash and cash equivalents of consolidated investment products

Cash and cash equivalents of consolidated investment products consist of highly liquid investments, including money market funds. See Note 6, "Variable Interest Entities and Consolidated Investment Products" for additional details.

Investment assets and liabilities of consolidated investment products

Investment assets and liabilities of consolidated investment products primarily consist of equity and fixed income securities. The carrying value of the investment assets and liabilities is also their fair value. Changes in the fair value of the investments are recognized as gains and losses in earnings. Equity securities are generally valued based upon closing market prices of the security on the principal exchange on which the security is traded. Fixed income securities include corporate bonds, convertible bonds and bank loans. Fixed income securities are generally valued based on the judgment of pricing vendors. See Note 6, "Variable Interest Entities and Consolidated Investment Products" for additional details.

Redeemable noncontrolling interests

Redeemable noncontrolling interests represent third-party investors' ownership interest in consolidated investment products. Third-party investors in consolidated investment products generally have the right to withdraw their capital, subject to certain conditions. Noncontrolling interests of consolidated investment products that are currently redeemable or convertible for cash or other assets at the option of the holder are classified as temporary equity.

Revenue recognition

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

Investment Management Fees

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

Performance Fees

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

Revenue Recognition

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

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

Customer Rebates, Waivers and Expense Reimbursements

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

Pre-offering related compensation - share-based awards

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

Share-based compensation

Share-based compensation expense 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.

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Distribution, servicing and marketing
Artisan Funds has authorized certain financial services companies, broker-dealers, banks or other intermediaries, and in some cases, other organizations designated by an authorized intermediary, to accept purchase, exchange, and redemption orders for shares of Artisan Funds on the funds' behalf. Many intermediaries charge a fee for accounting and shareholder services provided to fund shareholders on the funds' behalf. Those services typically include recordkeeping, transaction processing for shareholders' accounts, and other services.
The fee is either based on the number of accounts to which the intermediary provides such services or a percentage of the average daily value of fund shares held in such accounts. The funds pay a portion of such fees directly to the intermediaries, which are intended to compensate the intermediary for its provision of services of the type that would be provided by the funds' transfer agent or other service providers if the shares were registered directly on the books of the funds' transfer agent. Artisan pays the balance of those fees which includes compensation to the intermediary for its distribution, servicing and marketing of Artisan Funds shares.
Artisan Global Funds also have arrangements pursuant to which Artisan is required to pay a portion of its investment management fee for distribution, servicing and marketing of Artisan Global Funds shares.
Distribution, servicing and marketing fees paid by Artisan are presented as an operating expense as Artisan is the principal in its role as the primary obligor related to these services. Fees paid to intermediaries were as follows:

	For the Years Ended December 31,		
	2018	**2017**	**2016**
Fees paid with respect to Artisan Funds	$22,822	$25,697	$29,288
Fees paid with respect to Global Funds	1,002	1,731	838
Other marketing expenses	2,737	2,192	2,390
Total distribution, servicing and marketing	**$26,561**	**$29,620**	**$32,516**

Accrued fees to intermediaries were $2.7 million and $3.6 million as of December 31, 2018 and 2017, respectively, and are included in accounts payable, accrued expenses and other liabilities in the Consolidated Statements of Financial Condition.
Leases
Rent under non-cancelable operating leases with scheduled rent increases or decreases is accounted for on a straight-line basis over the lease term, beginning on the date of initial possession or the effective date of the lease agreement. Allowances and other lease incentives provided by Artisan's landlords are amortized on a straight-line basis as a reduction of rent expense. The difference between straight-line rent expense and rent paid and the unamortized deferred lease costs and build-out allowances are recorded as deferred lease obligations in the Consolidated Statements of Financial Condition.
Loss contingencies
Artisan considers the assessment of loss contingencies as a significant accounting policy because of the significant uncertainty relating to the outcome of any potential legal actions and other claims and the difficulty of predicting the likelihood and range of the potential liability involved, coupled with the material impact on Artisan's results of operations that could result from legal actions or other claims and assessments. Artisan recognizes estimated costs to defend as incurred. Potential loss contingencies are reviewed at least quarterly and are adjusted to reflect the impact and status of settlements, rulings, advice of counsel and other information pertinent to a particular matter. Significant differences could exist between the actual cost required to investigate, litigate and/or settle a claim or the ultimate outcome of a suit and management's estimate. These differences could have a material impact on Artisan's results of operations, financial position, or cash flows. Recoveries of losses are recognized in the Consolidated Statements of Operations when receipt is deemed probable. No loss contingencies were recorded at December 31, 2018, 2017 and 2016. Currently, there are no legal or administrative proceedings that management believes may have a material effect on Artisan's consolidated financial position, cash flows or results of operations.
Income taxes
Artisan accounts for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the future tax consequences attributable to temporary differences between the financial statement carrying amounts and tax bases of assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be realized or settled. Artisan recognizes a valuation allowance if it is more likely than not that some portion or all of the deferred tax assets will not be realized.
Artisan accounts for uncertain income tax positions by recognizing the impact of a tax position in its consolidated financial statements when Artisan believes it is more likely than not that the tax position would not be sustained upon examination by the appropriate tax authorities based on the technical merits of the position.

Comprehensive income (loss)

Total comprehensive income (loss) includes net income and other comprehensive income. Other comprehensive income (loss) consists of the change in unrealized gains (losses) on available-for-sale investments and foreign currency translation, net of related tax effects. The tax effects of components of other comprehensive income (loss) is calculated on the portion of comprehensive income (loss) attributable to APAM. As of January 1, 2018, unrealized gains (losses) on investments are recorded in net income instead of comprehensive income. See "-Recent accounting pronouncements" below.

Partnership distributions

Artisan makes distributions to its partners for purposes of paying income taxes as required under the terms of Artisan Partners Holdings' partnership agreement. Tax distributions are calculated utilizing the highest combined individual federal, state and local income tax rate among the various locations in which the partners, as a result of owning their interests in the partnership, are subject to tax, assuming maximum applicability of the phase-out of itemized deductions contained in the Internal Revenue Code. Artisan also makes additional distributions under the terms of the partnership agreement. Distributions are recorded in the financial statements on the declaration date.

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.

Diluted earnings per share is computed by increasing the denominator by the amount of additional Class A common shares that would have been outstanding if all potential Class A common shares had been issued. The numerator is also increased for the net income allocated to the potential Class A common shares. Potential dilutive Class A common shares consist of (1) the Class A common shares issuable upon exchange of Holdings limited partnership units for APAM Class A common stock and (2) unvested restricted share-based awards.

Recent accounting pronouncements

Accounting standards adopted as of January 1, 2018

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

The application of ASU 2014-09 had no impact on the Consolidated Statement of Financial Condition as of December 31, 2018, as compared to the previous revenue recognition standard. The application of the new principal versus agent guidance resulted in presentation changes whereby certain costs are now reported on a gross basis, when the Company is acting as principal, and reported on a net basis, when the Company is acting as an agent. The new standard requires the entire amount of fee waivers and expense reimbursements to be presented net against revenue, which resulted in a $4 thousand decrease in management fee revenue and a corresponding $4 thousand decrease in general and administrative expenses within the Consolidated Statements of Operations for the year ended December 31, 2018. Applying ASU 2014-09 had no impact on operating income or net income, as compared to applying the previous revenue recognition standard. Artisan did not apply any of the practical expedients in ASU 2014-09.

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In January 2016, the FASB issued ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities,* which requires all equity investments to be measured at fair value with changes in the fair value recognized through net income. The Company adopted ASU 2016-01 as of January 1, 2018, utilizing the modified retrospective method. Upon adoption, the Company made a cumulative-effect adjustment to the Company's Consolidated Statements of Financial Condition, which resulted in a $0.4 million decrease to accumulated other comprehensive income (loss) and a corresponding $0.4 million increase to retained earnings (deficit). The application of ASU 2016-01 results in the recognition of the Company's unrealized gains (losses) on investment securities through net income. The Company recognized $0.5 million of unrealized gains in net income for the year ended December 31, 2018.

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

Accounting standards not yet adopted

In February 2016, the FASB issued ASU 2016-02, *Leases*, which introduces a lessee model that brings most leases on the balance sheet. In July 2018, the FASB issued ASU 2018-11, *Leases - Targeted Improvements*, which provides an optional transition method related to implementing the new lease standard. Under this new transition method, an entity initially applies the new leases standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The Company plans to adopt the standard as of January 1, 2019, using the optional transition method and expects to elect the available practical expedients.

The adoption of the standard will result in an approximately $100 million increase in total assets and total liabilities as of January 1, 2019. The standard is not expected to impact the Consolidated Statements of Operations, the Company's liquidity, or the Company's debt covenant ratios under current agreements.

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 its 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".

The table below includes details of the Company's investment securities:

	December 31, 2018	**December 31, 2017**
Investments in equity securities	$ 5,857	$ 4,978
Investments in equity securities accounted for under the equity method	12,252	—
Total investment securities	**$ 18,109**	**$ 4,978**

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

The table below presents the net investment income activity related to the investment securities:

	For the year ended December 31, 2018
Net gains (losses) recognized on investment securities	$ 688
Less: Net realized gains (losses) recognized on investment securities sold during the period	157
Unrealized gains (losses) recognized on investment securities held as of the end of the period	**$ 531**

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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 December 31, 2018 and 2017:

	Assets and Liabilities at Fair Value				
	Total	**NAV Practical Expedient (No Fair Value Level)**	**Level 1**	**Level 2**	**Level 3**
December 31, 2018					
Assets					
Money market funds	$57,790	$ —	$57,790	$ —	$ —
Equity securities	18,109	12,252	5,857	—	—
December 31, 2017					
Assets					
Money market funds	$26,727	$ —	$26,727	$ —	$ —
Equity securities	4,978	—	4,978	—	—

Fair values determined based on Level 1 inputs utilize quoted market prices for identical assets. Level 1 assets generally consist of money market funds, open-end mutual funds and UCITS funds. Equity securities without a fair value level consist of 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 ofDecember 31, 2018 and 2017:

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

The fair value of borrowings was approximately $200.2 million as of December 31, 2018. Fair value was determined based on future cash flows, discounted to present value using current market interest rates. The inputs are categorized as Level 2 in the fair value hierarchy, as defined in Note 4, "Fair Value Measurements".

Senior notes - On August 16, 2012, Holdings issued $200 million in senior unsecured notes and entered into a $100 million five-year revolving credit agreement. The proceeds were used to repay the entire outstanding principal of an existing term loan.

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On August 16, 2017, Artisan Partners Holdings issued $60 million of 4.29% Series D senior notes and used the proceeds to repay the $60 million of 4.98% Series A senior notes that matured on August 16, 2017. In addition, Holdings amended and extended its $100 million revolving credit facility for an additional five-year period.
The fixed interest rate on each series of unsecured notes is subject to a one percentage 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.
Revolving credit agreement - Any loans outstanding under the revolving credit agreement bear interest at a rate per annum equal to, at the Company's election, (i) LIBOR adjusted by a statutory reserve percentage plus an applicable margin ranging from1.50% to 2.50%, depending on Holdings' leverage ratio (as defined in the revolving credit agreement) or (ii) an alternate base rate equal to the highest of (a) Citibank, N.A.'s prime rate, (b) the federal funds effective rate plus 0.50%, and (c) the daily one-month LIBOR adjusted by a statutory reserve percentage plus 1.00%, plus, in each case, an applicable margin ranging from 0.50% to 1.50%, depending on Holdings' leverage ratio. Unused commitments will bear interest at a rate that ranges from 0.175% to 0.500%, depending on Holdings' leverage ratio.
As of and for the year-ended December 31, 2018, there were no borrowings outstanding under the revolving credit agreement and the interest rate on the unused commitment was 0.175%.
The unsecured notes and the revolving credit agreement contain certain restrictive financial covenants including a limitation on the leverage ratio of Holdings and a minimum interest coverage ratio.
Interest expense incurred on the unsecured notes and revolving credit agreement was $10.6 million, $10.9 million, and $11.1 million for the years ended December 31, 2018, 2017 and 2016, respectively.
As of December 31, 2018, 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. See Note 2, "Summary of Significant Accounting Policies". Any such entities are collectively referred to herein as consolidated investment products or CIPs.
As of December 31, 2018, Artisan is considered to have a controlling financial interest in four sub funds of Artisan Global Funds and one Artisan Private Fund. As of December 31, 2018, Artisan's direct equity investment in the consolidated investment products was$30.2 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 18, "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 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 Consolidated Statements of Operations.

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During the year ended December 31, 2018, the Company determined that it no longer had a controlling financial interest in one Artisan Private Fund as a result of third party capital contributions to the fund. Upon loss of control, the VIE was deconsolidated and the following assets, liabilities and noncontrolling interest balances were derecognized from the Company's Consolidated Statements of Financial Condition:

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

There was no net impact to the Consolidated Statements of Operations for the year ended December 31, 2018 as a result of the deconsolidation of the fund. Artisan generally does not recognize a gain or loss upon deconsolidation of investment products because the assets and liabilities of CIPs are carried at fair value. Artisan's direct equity investment was reclassified from investment assets of consolidated investment products to investment securities. The direct equity investment in the private fund was $12.3 million as of December 31, 2018, which is accounted for under the equity method of accounting because Artisan retains significant influence over the fund.

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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 December 31, 2018 and 2017:

	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	—
December 31, 2017				
Assets				
Money market funds	$21,881	$21,881	$ —	$ —
Equity securities - long position	69,044	69,044	—	—
Fixed income instruments - long position	45,758	—	45,758	—
Derivative assets	343	303	40	—
Liabilities				
Equity securities - short position	$29,199	$29,199	$ —	$ —
Fixed income instruments - short position	18,513	—	18,513	—
Derivative liabilities	145	45	100	—

CIP balances included in the Company's consolidated statements of financial condition were as follows:

	December 31, 2018	**December 31, 2017**
Net CIP assets included in the table above	$ 62,409	$ 89,169
Net CIP assets not included in the table above	2,156	8,762
Total Net CIP assets	64,565	97,931
Less: redeemable noncontrolling interest	34,349	62,581
Artisan's direct equity investment in CIPs	$ 30,216	$ 35,350

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Note 7. Noncontrolling Interest - Holdings

Net income attributable to noncontrolling interests - Artisan Partners Holdings in the 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 December 31, 2018, APAM held approximately 70% of the equity ownership interests in Holdings.

In order to maintain the one-to-one correspondence of the number of Holdings partnership units and APAM common shares, Holdings will issue one general partner ("GP") unit to APAM for each share of Class A common stock issued by APAM. For the years ended December 31, 2018, 2017 and 2016, 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 January 1, 2016	**39,432,605**	**33,976,323**	**73,408,928**	**54**	**%**
Issuance of APAM Restricted Shares, Net [1]					