FIRST COMMUNITY BANCSHARES INC /NV/
Form 4
March 22, 2016

FORM 4

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL

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(Print or Type Responses)

1. Name and Address of Reporting Person *
KANTOR I NORRIS

(Last) (First) (Middle)

P. O. BOX 989

(Street)

BLUEFIELD, VA 24605

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
FIRST COMMUNITY BANCSHARES INC /NV/ [FCBC]

3. Date of Earliest Transaction (Month/Day/Year)
03/18/2016

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director _____ 10% Owner
_____ Officer (give title below) _____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
COMMON STOCK	03/18/2016		A		582	A	$ 0	29,364	D	
COMMON STOCK								1,018	I	By FCB Director Deferred Compensation Plan

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

number.

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)	
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares
STOCK OPTION	$ 12.07							12/19/2011	12/19/2021 (1)	COMMON STOCK	9,785

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
KANTOR I NORRIS P. O. BOX 989 BLUEFIELD, VA 24605	X			

Signatures

I. Norris Kantor by: Robert L. Schumacher (His Attorney-in-Fact)	03/22/2016
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) The options are subject to cliff vesting three years from the date of grant or at the retirement of the director, whichever comes first.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. >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.

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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.

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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.

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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.

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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.

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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Explanation of Responses:

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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

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)]	1,090,042	—	1,090,042	— %
Holdings Common Unit Exchanges	1,679,507	(1,679,507)	—	3 %
Forfeitures from Employee Terminations [(1)]	(52,718)	(91,383)	(144,101)	— %
Balance at December 31, 2016	**42,149,436**	**32,205,433**	**74,354,869**	**57 %**
Issuance of APAM Restricted Shares, Net	1,218,604	—	1,218,604	1 %
2017 Follow-On Offering	5,626,517	(5,626,517)	—	7 %
Holdings Common Unit Exchanges	1,472,197	(1,472,197)	—	2 %
Forfeitures from Employee Terminations [(1)]	(3,628)	—	(3,628)	— %
Balance at December 31, 2017	**50,463,126**	**25,106,719**	**75,569,845**	**67 %**
Issuance of APAM Restricted Shares, Net[(1)]	1,440,282	—	1,440,282	— %
2018 Follow-On Offering	644,424	(644,424)	—	1 %
Holdings Common Unit Exchanges	1,590,611	(1,590,611)	—	2 %
Forfeitures from Employee Terminations [(1)]	(67,255)	—	(67,255)	— %
Balance at December 31, 2018	**54,071,188**	**22,871,684**	**76,942,872**	**70 %**

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

Since APAM continues to have a controlling interest in Holdings, changes in ownership of Holdings are accounted for as equity transactions. Additional paid-in capital and noncontrolling interest - Artisan Partners Holdings in the Consolidated Statements of Financial Condition are adjusted to reallocate Holdings' historical equity to reflect the change in APAM's ownership of Holdings. The reallocation of equity had the following impact on the Consolidated Statements of Financial Condition:

Statement of Financial Condition	**For the Years Ended December 31,**	
	2018	**2017**
Additional paid-in capital	$(4,878)	$(5,994)
Noncontrolling interest - Artisan Partners Holdings	4,923	6,259
Accumulated other comprehensive income (loss)	(45)	(265)
Net impact to financial condition	—	—

In addition to the reallocation of historical equity, the change in ownership resulted in an increase to deferred tax assets and additional paid in capital of $0.8 million for the year ended December 31, 2018 and $4.7 million for the year ended December 31, 2017.

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Note 8. Stockholders' Equity
APAM - Stockholders' Equity

APAM had the following authorized and outstanding equity as of December 31, 2018 and 2017:

	Authorized	Outstanding December 31, 2018	Outstanding December 31, 2017	Voting Rights [1]	Economic Rights
Common shares					
Class A, par value $0.01 per share	500,000,000	54,071,188	50,463,126	1 vote per share	Proportionate
Class B, par value $0.01 per share	200,000,000	8,645,249	11,922,192	1 vote per share[2]	None
Class C, par value $0.01 per share	400,000,000	14,226,435	13,184,527	1 vote per share	None

[1] The Company's employees to whom Artisan has granted equity have entered into a stockholders agreement with respect to all shares of APAM common stock they have acquired from the Company and any shares they may acquire from the Company in the future, pursuant to which they granted an irrevocable voting proxy to a Stockholders Committee. As of December 31, 2018, Artisan's employees held 4,575,332 restricted shares of Class A common stock and all 8,645,249 outstanding shares of Class B common stock, all of which were subject to the agreement.
[2] On February 9, 2018, the Class B common shares changed from five votes per share to one vote per share.

APAM is dependent on cash generated by Holdings to fund any dividends. Generally, Holdings will make distributions to all of its partners, including APAM, based on the proportionate ownership each holds in Holdings. APAM will fund dividends to its stockholders from its proportionate share of those distributions after provision for its taxes and other obligations. APAM declared and paid the following dividends per share during the years ended December 31, 2018, 2017 and 2016:

Type of Dividend	Class of Stock	For the Years Ended December 31, 2018	2017	2016
Quarterly	Common Class A	$2.40	$2.40	$2.40
Special Annual	Common Class A	$0.79	$0.36	$0.40

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The following table summarizes APAM's stock transactions for the years endedDecember 31, 2018, 2017 and 2016:

	Total Stock Outstanding	Class A Common Stock[1]	Class B Common Stock	Class C Common Stock
Balance at January 1, 2016	**73,408,928**	**39,432,605**	**18,327,222**	**15,649,101**
Holdings Common Unit Exchanges	—	1,679,507	(1,549,070)	(130,437)
Restricted Share Award Grants	1,118,267	1,118,267	—	—
Restricted Share Award Net Share Settlement	(28,225)	(28,225)	—	—
Employee/Partner Terminations	(144,101)	(52,718)	(1,636,103)	1,544,720
Balance at December 31, 2016	**74,354,869**	**42,149,436**	**15,142,049**	**17,063,384**
2017 Follow-On Offering	—	5,626,517	(2,104,517)	(3,522,000)
Holdings Common Unit Exchanges	—	1,472,197	(1,048,917)	(423,280)
Restricted Share Award Grants	1,267,250	1,267,250	—	—
Restricted Share Award Net Share Settlement	(48,646)	(48,646)	—	—
Employee/Partner Terminations	(3,628)	(3,628)	(66,423)	66,423
Balance at December 31, 2017	**75,569,845**	**50,463,126**	**11,922,192**	**13,184,527**
2018 Follow-On Offering	—	644,424	(644,424)	—
Holdings Common Unit Exchanges	—	1,590,611	(606,066)	(984,545)
Restricted Share Award Grants	1,517,724	1,517,724	—	—
Restricted Share Award Net Share Settlement	(77,442)	(77,442)	—	—
Employee/Partner Terminations	(67,255)	(67,255)	(2,026,453)	2,026,453
Balance at December 31, 2018	**76,942,872**	**54,071,188**	**8,645,249**	**14,226,435**

[1] There were 246,581, 218,089, and 178,401 restricted stock units outstanding at December 31, 2018, 2017, and 2016, respectively. Restricted stock units are not reflected in the table because they are not considered outstanding or issued stock.

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

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

Artisan Partners Holdings - Partners' Equity

Holdings makes distributions of its net income to the holders of its partnership units for income taxes as required under the terms of the partnership agreement and also makes additional distributions under the terms of the partnership agreement. The distributions are recorded in the financial statements on the declaration date, or on the payment date in lieu of a declaration date. Holdings' partnership distributions for the years ended December 31, 2018, 2017 and 2016 were as follows:

	For the Years Ended December 31,		
	2018	**2017**	**2016**
Holdings Partnership Distributions to Limited Partners	$103,434	$115,804	$133,876
Holdings Partnership Distributions to APAM	$217,396	$197,070	$160,532
Total Holdings Partnership Distributions	**$320,830**	**$312,874**	**$294,408**

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

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Note 9. Revenue From Contracts with Customers

Disaggregated Revenue

The following table presents a disaggregation of revenue by type and vehicle for the years ended December 31, 2018, 2017 and 2016:

	For the Years Ended December 31,		
	2018	**2017**	**2016**
Management fees			
Artisan Funds	487,041	472,502	453,578
Artisan Global Funds	35,007	30,107	16,981
Separate accounts[1]	303,631	292,667	249,219
Performance fees			
Separate accounts[1]	2,956	348	1,081
Total revenues[2]	**$828,635**	**$795,624**	**$720,859**

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

[2] All management fees and performance fees from consolidated investment products were eliminated upon consolidation and therefore are omitted from this table.

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

	December 31, 2018	**December 31, 2017**
Customer		
Artisan Funds	$ 5,418	$ 4
Artisan Global Funds	417	5,105
Separate accounts	59,787	68,019
Total receivables from contracts with customers	$ 65,622	$ 73,128
Non-customer receivables	2,069	3,565
Accounts receivable	**$ 67,691**	**$ 76,693**

Artisan Funds and Artisan Global Funds are billed on the last day of each month. Artisan Funds and Artisan Global Funds make payments on the same day the invoice is received for the majority of the invoiced amount. The remainder of the invoice is generally paid in the month following receipt of the invoice. Separate accounts clients are generally billed on a monthly or quarterly basis, with payments due within 30 days of billing.

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

Note 10. Compensation and Benefits

Total compensation and benefits consists of the following:

	For the Years Ended December 31,		
	2018	**2017**	**2016**
Salaries, incentive compensation and benefits [1]	$360,287	$341,060	$312,676
Restricted share-based award compensation expense	52,879	49,142	43,159
Total 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**

[1] Excluding restricted share-based award compensation expense

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Incentive compensation

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

Restricted share-based awards

Artisan has registered 14,000,000 shares of Class A common stock for issuance under the 2013 Omnibus Incentive Compensation Plan (the "Plan"). Pursuant to the Plan, APAM has granted a combination of restricted stock awards and restricted stock units (collectively referred to as "restricted share-based awards") of Class A common stock to employees. The restricted share-based awards generally vest on a pro rata basis over five years. Certain share-based awards will vest or become eligible to vest only upon a combination of both (1) pro-rata annual time vesting and (2) qualifying retirement (as defined in the award agreements). Unvested awards are subject to forfeiture upon termination of employment. Grantees receiving the awards are entitled to dividends on unvested and vested shares and units. 6,546,999 shares of Class A common stock were reserved and available for issuance under the Plan as of December 31, 2018

The following table summarizes the restricted share-based award activity for the years ended December 31, 2018, 2017 and 2016:

	Weighted-Average Grant Date Fair Value	Number of Awards
Unvested at January 1, 2016	$ 51.58	2,861,984
Granted	30.42	1,138,892
Forfeited	50.44	(52,718)
Vested	51.76	(553,248)
Unvested at January 1, 2017	$ 44.47	3,394,910
Granted	28.30	1,268,500
Forfeited	39.56	(3,628)
Vested	48.06	(645,796)
Unvested at January 1, 2018	$ 38.79	4,013,986
Granted	39.32	1,518,974
Forfeited	36.09	(67,255)
Vested	44.50	(787,248)
Unvested at December 31, 2018	$ 38.04	4,678,457

The aggregate vesting date fair value of awards that vested during the years ended December 31, 2018, 2017 and 2016 was approximately $25.8 million, $19.8 million, and $15.3 million, respectively. The unrecognized compensation expense for the unvested restricted share-based awards as of December 31, 2018 was $102.5 million with a weighted average recognition period of 3.3 years remaining.

During the years ended December 31, 2018 and 2017, the Company withheld a total of 77,442 and 48,646 restricted shares, respectively, as a result of net share settlements to satisfy employee tax withholding obligations. The Company paid $2.6 million and $1.5 million in employee tax withholding obligations related to these settlements during the years ended December 31, 2018 and 2017, respectively. These net share settlements had the effect of shares repurchased and retired by the Company, as they reduced the number of shares outstanding.

Pre-offering related compensation - share-based awards

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

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Note 11. Income Taxes and Related Payments
APAM is subject to U.S. federal, state and local income taxation on APAM's allocable portion of Holdings' income, as well as foreign income taxes payable by Holdings' subsidiaries. Components of the provision for income taxes consist of the following:

	For the Years Ended December 31,		
	2018	**2017**	**2016**
Current:			
Federal	$18,247	$21,960	$14,704
State and local	3,993	2,663	2,180
Foreign	495	469	639
Total	22,735	25,092	17,523
Deferred:			
Federal	22,218	396,502	32,124
State and local	2,645	(1,086)	1,836
Total	24,863	395,416	33,960
Income tax expense	**$47,598**	**$420,508**	**$51,483**

The provision for income taxes differs from the amount of income tax computed by applying the applicable U.S. statutory federal income tax rate to income before provision for income taxes as follows:

	Years Ended December 31,		
	2018	**2017**	**2016**
U.S. federal statutory rate	21.0 %	35.0 %	35.0 %
State and local taxes, net of federal tax effect	2.1	0.9	1.6
Non-deductible share-based compensation	—	0.5	2.4
Rate benefit from the flow through entity	(6.7)	(6.2)	(15.7)
Tax Reform - change in federal corporate tax rate	—	43.9	—
Other	(0.6)	(0.5)	(0.4)
Effective tax rate	15.8 %	73.6 %	22.9 %

The effective tax rate includes a rate benefit attributable to the fact that, for the years ended December 31, 2018, 2017 and 2016, approximately 33%, 38% and 47%, respectively, of Artisan Partners Holdings' taxable earnings were attributable to other partners and not subject to corporate-level taxes. The effective tax rate was also lower than the statutory rate due to dividends paid on unvested share-based awards, net of higher tax expense related to the vesting of restricted share-based awards.

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The Tax Cuts and Jobs Act ("Tax Reform") was enacted in December 2017. As a result of Tax Reform, existing deferred tax assets were remeasured to reflect the reduction in the enacted U.S. federal corporate tax rate. The tax rate used to measure deferred tax assets changed from 37.0% to 23.5% as of December 31, 2017, which resulted in a reduction to deferred tax assets of $352 million with a corresponding increase to the provision for income taxes for the year ended December 31, 2017. The reduction in the enacted U.S. federal corporate tax rate from 35% to 21% was the largest driver of lowering APAM's effective tax rate for the year endedDecember 31, 2018.

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

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

For purposes of the TRAs, cash savings of income taxes are calculated by comparing APAM's actual income tax liability to the amount it would have been required to pay had it not been able to utilize any of the tax benefits subject to the TRAs, unless certain assumptions apply. The TRAs will continue in effect until all such tax benefits have been utilized or expired, unless APAM exercises its right to terminate the agreements or payments under the agreements are accelerated in the event that APAM materially breaches any of its material obligations under the agreements. The actual increase in tax basis, as well as the amount and timing of any payments under these agreements, will vary depending upon a number of factors, including the timing of sales or exchanges by the holders of limited partnership units, the price of the Class A common stock at the time of such sales or exchanges, whether such sales or exchanges are taxable, the amount and timing of the taxable income APAM generates in the future and the tax rate then applicable and the portion of APAM's payments under the TRAs constituting imputed interest or depreciable basis or amortizable basis.

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

The 2017 reduction in deferred tax assets described above (including the results of Tax Reform) resulted in a decrease in the amounts payable under the TRAs, reflecting the reduced estimate of APAM's tax savings that will be paid to the TRA counterparties. Amounts payable under tax receivable agreements are estimates which may be impacted by factors, including but not limited to, expected tax rates, projected taxable income, and projected ownership levels and are subject to change. Changes in the estimates of amounts payable under tax receivable agreements are recorded as non-operating income (loss) in the Consolidated Statements of Operations.

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The change in the Company's deferred tax assets related to the tax benefits described above and the change in corresponding amounts payable under the TRAs for the years ended December 31, 2018 and 2017 is summarized as follows:

	Deferred Tax Asset - Amortizable Basis	Amounts Payable Under Tax Receivable Agreements
December 31, 2016	**$ 653,942**	**$ 586,246**
2017 Follow-On Offering	113,419	96,406
2017 Holdings Common Unit Exchanges	28,134	23,914
Amortization	(42,891)	—
Payments under TRAs[1]	—	(30,234)
Tax Reform - change in federal corporate tax rate	(341,669)	(290,418)
Change in estimate	(245)	(501)
December 31, 2017	**$ 410,690**	**$ 385,413**
2018 Follow-On Offering	7,687	6,534
2018 Holdings Common Unit Exchanges	16,199	13,770
Amortization	(29,851)	—
Payments under TRAs[1]	—	(36,111)
Change in estimate	(10)	(251)
December 31, 2018	**$ 404,715**	**$ 369,355**

(1) Interest payments of $115 thousand and $85 thousand were paid in addition to these TRA payments for the years ended December 31, 2018 and 2017, respectively.

Net deferred tax assets comprise the following:

	As of December 31, 2018	As of December 31, 2017
Deferred tax assets:		
Amortizable basis [1]	$ 404,715	$ 410,690
Other [2]	24,413	18,522
Total deferred tax assets	429,128	429,212
Less: valuation allowance [3]	—	—
Net deferred tax assets	**$ 429,128**	**$ 429,212**

(1) Represents the unamortized step-up of tax basis and other tax attributes from the merger and partnership unit sales and exchanges described above. These future tax benefits are subject to the TRA agreements.
(2) Represents the net deferred tax assets associated with the merger described above and other miscellaneous deferred tax assets. These future tax benefits are not subject to the TRA agreements.
(3) Artisan assessed whether the deferred tax assets would be realizable and determined based on its history of taxable income that the benefits would more likely than not be realized. Accordingly, no valuation allowance is required.

Accounting standards establish a minimum threshold for recognizing, and a system for measuring, the benefits of income tax return positions in financial statements. There were no uncertain tax positions recorded as of December 31, 2018 and December 31, 2017.
In the normal course of business, Artisan is subject to examination by federal and certain state, local and foreign tax regulators. As of December 31, 2018, U.S. federal income tax returns for the years 2015 through 2017 are open and therefore subject to examination. State and local tax returns are generally subject to examination from 2014 to 2017. Foreign tax returns are generally subject to examination from 2014 to 2017.

Explanation of Responses:

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Note 12. Accumulated Other Comprehensive Income (Loss)

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

	As of December 31, 2018	As of December 31, 2017
Unrealized gain on investments, net of tax	$ —	$ 259
Foreign currency translation gain (loss)	(1,895)	(1,132)
Accumulated Other Comprehensive Income (Loss)	**$ (1,895)**	**$ (873)**

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

Note 13. Earnings Per Share

The computation of basic and diluted earnings per share under the two-class method for the years ended December 31, 2018, 2017 and 2016 were as follows:

Basic and Diluted Earnings Per Share	**For the Years Ended December 31,**		
	2018	**2017**	**2016**
Numerator:			
Net income attributable to APAM	$ 158,309	$ 49,599	$ 73,030
Less: Allocation to participating securities	19,447	16,026	13,059
Net income available to common stockholders	$ 138,862	$ 33,573	$ 59,971
Denominator:			
Weighted average shares outstanding	48,862,435	44,647,318	38,137,810
Earnings per share	**$ 2.84**	**$ 0.75**	**$ 1.57**

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

There were no dilutive securities outstanding during the years ended December 31, 2018, 2017 and 2016. The Holdings limited partnership units are anti-dilutive primarily due to the impact of public company expenses. Unvested restricted share-based awards are considered participating securities and are therefore anti-dilutive. The following table summarizes the weighted-average shares outstanding that are excluded from the calculation of diluted earnings per share because their effect would have been anti-dilutive:

Anti-Dilutive Weighted Average Shares Outstanding	**For the Years Ended December 31,**		
	2018	**2017**	**2016**
Holdings limited partnership units	23,351,440	26,837,118	32,784,750
Unvested restricted share-based awards	4,813,895	4,153,260	3,566,784
Total	28,165,335	30,990,378	36,351,534

Note 14. Benefit Plans

Artisan has a 401(k) plan and similar foreign arrangements for its non-U.S. employees, under which it provides a matching contribution on employees' pre-tax contributions. Expenses related to Artisan's benefits plans for the years ended December 31, 2018, 2017 and 2016 were $6.9 million, $6.4 million and $6.0 million, respectively, and are included in compensation and benefits in the Consolidated Statements of Operations.

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Artisan provides an opportunity for eligible employees to participate in Artisan's financial growth and success through phantom equity awards, pursuant to the Artisan Partners Holdings LP Phantom Equity Plan. The phantom equity awards provide participants the right to receive cash payments upon vesting based on the trading price of APAM's Class A common stock. Awards made under the Phantom Equity Plan are liability awards and are subject to vesting on a pro rata basis over five years. Award recipients must be employed by Artisan on the vesting date in order to receive payment.

Expense related to the plan for the years ended December 31, 2018, 2017 and 2016 was $0.5 million, $0.6 million and $0.1 million, respectively, and is included in compensation and benefits in the Consolidated Statements of Operations. The liability at December 31, 2018 and 2017 for the plan was $0.4 million and $0.6 million, respectively.

Note 15. Indemnifications

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

Note 16. Property and Equipment

The composition of property and equipment at December 31, 2018 and 2017 are as follows:

	As of December 31,	
	2018	**2017**
Computers and equipment	$ 8,000	$ 7,770
Computer software	4,554	4,372
Furniture and fixtures	10,566	8,658
Leasehold improvements	37,551	27,357
Total Cost	60,671	48,157
Less: Accumulated depreciation	(31,533)	(27,132)
Property and equipment, net of accumulated depreciation	**$ 29,138**	**$ 21,025**

Depreciation expense totaled $5.6 million, $5.3 million and $5.2 million for the years ended December 31, 2018, 2017 and 2016, respectively.

Note 17. Lease Commitments

Artisan has lease commitments for office space, furniture, and equipment, which are accounted for as operating leases. Certain lease agreements provide for scheduled rent increases over the lease term. Artisan records rent expense for operating leases with scheduled rent increases on a straight-line basis over the term of the respective agreement. In addition, Artisan has received certain lease incentives, which are amortized on a straight-line basis over the term of the lease agreement. Rental expense for the years ended December 31, 2018, 2017 and 2016 was $13.9 million, $10.5 million and $9.8 million, respectively.

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

2019	$ 14,123
2020	15,340
2021	15,215
2022	13,748
2023	12,378
Thereafter	57,185
Total	**$ 127,989**

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Note 18. Related Party Transactions

Several of the current executive officers and directors of APAM or entities associated with those individuals, are limited partners of Holdings. As a result, certain transactions (such as TRA payments) between Artisan and the limited partners of Holdings are considered to be related party transactions with respect to these persons.

Holdings also makes estimated state tax payments on behalf of certain limited partners, including related parties. These payments are then netted from subsequent distributions to the limited partners. At December 31, 2018 and 2017, accounts receivables included $0.6 million and $2.3 million, respectively, of partnership tax reimbursements due from Holdings' limited partners, including related parties.

Affiliate transactions—Artisan Funds

Artisan has an agreement to serve as the investment adviser to Artisan Funds, with which certain Artisan employees are affiliated. Under the terms of the agreement, which generally is reviewed and continued by the board of directors of Artisan Funds annually, a fee is paid to Artisan based on an annual percentage of the average daily net assets of each Artisan Fund ranging from 0.625% to 1.05%. Artisan has contractually agreed to waive its management fees or reimburse for expenses incurred to the extent necessary to limit annualized ordinary operating expenses incurred by certain of the Artisan Funds to not more than a fixed percentage (ranging from 0.88% to 1.50%) of a fund's average daily net assets. In addition, Artisan may voluntarily waive fees or reimburse any of the Artisan Funds for other expenses. The officers and a director of Artisan Funds who are affiliated with Artisan receive no compensation from the funds.

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

	For the Years Ended December 31,		
Artisan Funds	**2018**	**2017**	**2016**
Investment management fees (Gross of fee waivers/expense reimbursements)	$487,460	$472,501	$453,579
Fee waivers / expense reimbursements	$419	$504	$719

Affiliate transactions—Artisan Global Funds

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

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

	For the Years Ended December 31,		
Artisan Global Funds	**2018**	**2017**	**2016**
Investment management fees (Gross of fee waivers / expense reimbursements)	$35,070	$30,107	$16,981
Elimination of management fees from consolidated investment products[(1)]	$(62)	$—	$—
Consolidated investment management fees (Gross of fee waivers / expense reimbursements)	**$35,008**	**$30,107**	**$16,981**
Fee waivers / expense reimbursements	$386	$218	$381
Elimination of fee waivers / expense reimbursements from consolidated investment products [(1)]	$(385)	$—	$—
Consolidated fee waivers / expense reimbursements	**$1**	**$218**	**$381**

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

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Affiliate transactions - Artisan Private Funds

Pursuant to written agreements, Artisan serves as the investment manager, and acts as the general partner, for certain Artisan Private Funds. Under the terms of these agreements, Artisan earns a management fee and is entitled to receive an allocation of profits. In addition, for a period of time following the formation of each private fund, Artisan has agreed to reimburse the fund to the extent that expenses, excluding Artisan's management fee and transaction related costs, exceed 1.00% per annum of the net assets of the fund. Artisan may also voluntarily waive fees or reimburse the funds for other expenses.

Artisan and certain related parties, including employees, officers and members of the Company's board have invested in one or more of the funds and currently do not pay a management fee or incentive allocation.

	For the Years Ended December 31,		
Artisan Private Funds	**2018**	**2017**	**2016**
Investment management fees (Gross of fee waivers / expense reimbursements)	$739	$39	$ —
Investment performance fees	$559	$50	$ —
Elimination of management fees and performance fees from consolidated investment products[1]	$(286)	$(89)	$ —
Consolidated investment management fees (Gross of fee waivers / expense reimbursements)	**$1,012**	**$—**	**$ —**
Fee waivers / expense reimbursements	$206	$290	$ —
Elimination of fee waivers / expense reimbursements from consolidated investment products [1]	$(206)	$(290)	$ —
Consolidated fee waivers / expense reimbursements	**$—**	**$—**	**$ —**

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

Note 19. Concentration of Credit Risk and Significant Relationships

Artisan generates a portion of its revenues from clients domiciled in various countries outside the United States. For the years ended December 31, 2018, 2017 and 2016, approximately 16%, 15% and 11% of Artisan's investment management fees, respectively, were earned from clients located outside of the United States.

Note 20. Litigation Matters

In the normal course of business, Artisan 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 Artisan's consolidated financial position, cash flows or results of operations.

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Note 21. Selected Quarterly Financial Data (Unaudited)

The following table presents unaudited quarterly results of operations for 2018 and 2017. These quarterly results reflect all normal recurring adjustments that are, in the opinion of management, necessary for a fair statement of the results. Revenues and net income can vary significantly from quarter to quarter due to the nature of Artisan's business activities.

	For the Quarters Ended			
	March 31, 2018	**June 30, 2018**	**Sept. 30, 2018**	**Dec. 31, 2018**
Total revenues	$212,008	$ 212,296	$ 212,788	$ 191,543
Operating income	$79,986	$ 78,877	$ 81,837	$ 64,241
Net income attributable to noncontrolling interests-Artisan Partners Holdings	$26,052	$ 23,307	$ 24,021	$ 17,674
Net income (loss) attributable to noncontrolling interests- consolidated investment products	$4,338	$ 2,332	$ 178	$ (2,021)
Net income attributable to Artisan Partners Asset Management Inc.	$41,274	$ 42,006	$ 42,518	$ 32,511
Earnings per basic and diluted share:	$0.75	$ 0.72	$ 0.77	$ 0.57

	For the Quarters Ended			
	March 31, 2017	**June 30, 2017**	**Sept. 30, 2017**	**Dec. 31, 2017**
Total revenues	$184,074	$196,273	$ 204,556	$ 210,721
Operating income	$58,032	$66,503	$ 80,630	$ 81,246
Net income attributable to noncontrolling interests-Artisan Partners Holdings	$22,760	$22,197	$ 27,234	$ 26,847
Net income attributable to noncontrolling interests- consolidated investment products	$—	$4	$ 610	$ 1,486
Net income attributable to Artisan Partners Asset Management Inc.	$19,795	$26,632	$ 30,665	$ (27,493)
Earnings (loss) per basic and diluted share:	$0.37	$0.45	$ 0.61	$ (0.67)

The summation of quarterly earnings per share does not equal annual earnings per share because the calculations are performed independently.

Note 22. Subsequent Events

Restricted share-based awards

On February 4, 2019, the board of directors of APAM approved the grant of 963,000 restricted share-based awards to certain employees pursuant to the Company's 2013 Omnibus Incentive Compensation Plan. Approximately half of these awards will vest pro rata in the first fiscal quarter of each of the next five years. The remaining awards will generally vest, or become eligible to vest, upon the satisfaction of both (1) pro-rata annual time vesting and (2) qualifying retirement (as defined in the award agreements). Compensation expense associated with these awards is expected to be approximately $22.1 million, which will be recognized on a straight-line basis over the requisite service period.

Distributions and dividends

APAM, acting as the general partner of Artisan Partners Holdings, declared, effective February 4, 2019, a distribution by Artisan Partners Holdings of $76.0 million to holders of Artisan Partners Holdings partnership units, including APAM. At the same time, the board of directors of APAM declared, effective February 4, 2019, a quarterly dividend of $0.56 per share of Class A common stock and a special annual dividend of $1.03 per share of Class A common stock. Both common stock dividends, a total of $1.59 per share, are payable on February 28, 2019 to shareholders of record as of February 14, 2019.

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Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Disclosure Controls and Procedures

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

Our management, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) at December 31, 2018. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are effective.

Report of Management on Internal Control over Financial Reporting

Company management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Our 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.

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.

Company management, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our internal control over financial reporting as of December 31, 2018, based on the 2013 version of the Internal Control - Integrated Framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control - Integrated Framework*. Based on that assessment, Company management concluded that the Company’s internal control over financial reporting was effective as ofDecember 31, 2018.

The effectiveness of the Company’s internal control over financial reporting as ofDecember 31, 2018, has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report appearing in Item 8, which expresses an unqualified opinion on the effectiveness of internal control over financial reporting as of December 31, 2018.

Changes in Internal Control over Financial Reporting

There have been no changes in internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended December 31, 2018, that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

Item 9B. Other Information

None.

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PART III

Item 10. Directors, Executive Officers and Corporate Governance

The following table sets forth the name, age and positions of each of our directors and executives officers at February 14, 2019:

Name	Age	Position
Matthew R. Barger	61	Independent Director
Seth W. Brennan	48	Independent Director
Tench Coxe	61	Independent Director
Stephanie G. DiMarco	61	Independent Director
Jeffrey A. Joerres	59	Independent Director
Andrew A. Ziegler	61	Lead Independent Director
Eric R. Colson	49	President, Chief Executive Officer and Chairman of the Board
Charles J. Daley, Jr.	56	Executive Vice President, Chief Financial Officer and Treasurer
Sarah A. Johnson	47	Executive Vice President, Chief Legal Officer and Secretary
Jason A. Gottlieb	49	Executive Vice President
James S. Hamman, Jr.	49	Executive Vice President
Gregory K. Ramirez	48	Executive Vice President

Mr. Barger has served on our Board since February of 2013. Mr. Barger is the chairman of the Board's Nominating and Corporate Governance Committee and also serves on the Board's Audit Committee. He is currently the managing member of MRB Capital, LLC, and he has been a senior advisor at Hellman & Friedman LLC ("H&F") since 2007. Prior to 2007, he served in a number of roles at H&F, including managing general partner and chairman of the investment committee. Mr. Barger was a member of the advisory committee of Artisan Partners Holdings from January 1995 to the completion of our initial public offering in March 2013. Prior to joining H&F, Mr. Barger was an associate in the corporate finance department of Lehman Brothers Kuhn Loeb. Mr. Barger graduated from Yale University in 1979 and received an MBA from the Stanford Graduate School of Business in 1983. He has been a director of Hall Capital Partners LLC since August 2007. Mr. Barger's expertise in the investment management industry and his broad experience in public and private directorships, finance, corporate strategy and business development provide valuable insight to our Board.

Mr. Brennan joined our Board in October of 2014 and currently serves on the Compensation Committee and Nominating and Corporate Governance Committee. Mr. Brennan is currently managing partner and co-founder of Lincoln Peak Capital. Prior to founding Lincoln Peak Capital in 2008, Mr. Brennan was an executive vice president and founding management team member of Affiliated Managers Group, Inc. Before joining Affiliated Managers Group, Mr. Brennan worked in the global insurance investment banking group at Morgan Stanley & Co. and in the financial institutions group at Wasserstein, Perella & Co. Mr. Brennan received a BA from Hamilton College. Mr. Brennan's operating and leadership experience in the investment management industry qualifies him to serve on our Board. He brings to the Board extensive experience in finance and business development.

Mr. Coxe has served on our Board since February of 2013 and currently serves on the Compensation Committee and Nominating and Corporate Governance Committee. He has been a managing director of Sutter Hill Ventures since 1989 and joined that firm in 1987 following his tenure with Digital Communications Associates in Atlanta. Prior to that, Mr. Coxe worked with Lehman Brothers in New York City, where he was a corporate finance analyst specializing in mergers and acquisitions as well as debt and equity financing. Mr. Coxe was a member of Artisan Partners Holdings' advisory committee from January 1995 to the completion of our initial public offering in March 2013. Mr. Coxe holds a BA in Economics from Dartmouth College and an MBA from Harvard Business School. He currently serves on the board of directors of Nvidia Corporation and is a former director of Mattersight Corporation. Mr. Coxe's wide-ranging leadership experience and his experiences with both public and private directorships enable him to provide additional insight to our Board and its committees.

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Ms. DiMarco has served on our Board since February 2013 and currently chairs the Audit Committee. Ms. DiMarco founded Advent Software, Inc. in June 1983 and served Advent in various capacities over time, including chair of its board of directors (September 2013 to July 2015), chief executive officer (May 2003 to June 2012) and chief financial officer (July 2008 to September 2009). She currently serves on the advisory board of the College of Engineering at the University of California Berkeley and the board of directors of Summer Search, a non-profit organization. She is a former member of the board of trustees of the University of California Berkeley Foundation, a former advisory board member of the Haas School of Business at the University of California Berkeley and a former trustee of the San Francisco Foundation where she chaired the investment committee. Ms. DiMarco holds a BS in Business Administration from the University of California at Berkeley. Ms. DiMarco's extensive experience in technological developments for the asset management industry and her management experience as a founder, officer and director of Advent provide perspective on the management and operations of a public company. In addition, her extensive financial and accounting experience strengthens our Board through her understanding of accounting principles, financial reporting rules and regulations, and internal controls.

Mr. Joerres has served on our Board since February of 2013. He currently chairs the Compensation Committee and serves as a member of the Audit Committee. Mr. Joerres was executive chairman and chairman of the board of directors of ManpowerGroup until his retirement in December 2015. From April 1999 until May 2014, he served as chief executive officer of ManpowerGroup. Mr. Joerres currently serves on the boards of directors of ConocoPhilips and Western Union, and is a member of the Committee for Economic Development. He is also past chairman and director of the Federal Reserve Bank of Chicago, a former director of Johnson Controls International plc, and a former trustee of the U.S. Council for International Business. Mr. Joerres holds a bachelor's degree from Marquette University's College of Business Administration. Mr. Joerres's operating and leadership experience as an officer and director of ManpowerGroup and his innovative approach to optimizing human capital provide the Board with insight into the management and operations of a public company.

Mr. Ziegler has served on our Board since March 2011 and is currently its Lead Independent Director. Mr. Ziegler served as Chairman of the Board from March 2011 to August 2015 and was our Executive Chairman from March 2011 to March 2014. Mr. Ziegler also served on the board of directors of Artisan Partners Funds, Inc. from January 1995 to November 2013. Mr. Ziegler was a managing director and the chief executive officer of Artisan Partners Holdings from its founding in 1994 through January 2010. Mr. Ziegler holds a BS from the University of Wisconsin-Madison and a JD from the University of Wisconsin Law School. Mr. Ziegler's operating and leadership experience as our past executive chairman and his extensive knowledge of our business and the investment management industry provide the Board with insight into the company and valuable continuity of leadership.

Mr. Colson has been President, Chief Executive Officer and a director of Artisan Partners Asset Management since March 2011 and has served as Chairman of the Board since August 1, 2015. He has also been a director of Artisan Partners Funds, Inc. since November 2013. Mr. Colson has served as chief executive officer of Artisan Partners since January 2010. Before serving as Artisan Partners' chief executive officer, Mr. Colson served as chief operating officer for investment operations from March 2007 through January 2010. Mr. Colson has been a managing director of Artisan Partners since he joined the Company in January 2005. Before joining Artisan Partners, Mr. Colson was an executive vice president of Callan Associates, Inc. Mr. Colson holds a BA in Economics from the University of California-Irvine.

Mr. Daley has been Executive Vice President, Chief Financial Officer and Treasurer of Artisan Partners Asset Management since March 2011. He has served as chief financial officer of Artisan Partners since August 2010 and has been a managing director since July 2010. Prior to that, Mr. Daley was chief financial officer, executive vice president and treasurer of Legg Mason, Inc. Mr. Daley holds a BS in Accounting from the University of Maryland, is an inactive certified public accountant, and holds a Series 27 license.

Ms. Johnson has been Executive Vice President, Chief Legal Officer and Secretary of Artisan Partners Asset Management and General Counsel of Artisan Partners since October 2013. From April 2013 to October 2013 she served as Assistant Secretary of Artisan Partners Asset Management. She has been general counsel of Artisan Partners Funds, Inc. since February 2011. Ms. Johnson was named a managing director of Artisan Partners in March 2010. Prior to joining the Company in July 2002, Ms. Johnson practiced law with the law firm of Bell, Boyd & Lloyd LLC, Chicago, Illinois. Ms. Johnson holds a BA from Northwestern University and a JD from Northwestern University School of Law.

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Mr. Gottlieb was appointed Executive Vice President of Artisan Partners Asset Management in February 2017. Mr. Gottlieb joined Artisan Partners in October 2016 as a managing director and Chief Operating Officer of Investments. Prior to joining the firm in October 2016, Mr. Gottlieb was a partner and managing director at Goldman Sachs where, since 2005, he was a leader in Goldman Sachs' Alternative Investment & Manager Selection Group. He also served as a portfolio manager on the Goldman Sachs Multi-Manager Alternatives Fund from the fund's inception in April 2013 until he left the firm in August 2016. Mr. Gottlieb holds a bachelor's degree in Finance from Siena College and an MBA from Fordham University.

Mr. Hamman was appointed Executive Vice President of Artisan Partners Asset Management in February 2016. He has been a managing director of Artisan Partners since April 2014 and currently has responsibility for overseeing global distribution. Prior to his current role, Mr. Hamman was responsible for overseeing human capital and corporate development and for providing legal advice with respect to various aspects of Artisan's advisory business. He also served as a director of Artisan Partners Global Funds from June 2010 to January 2018. Mr. Hamman joined Artisan Partners in March 2010. He holds a bachelor's degree in Business Administration from the University of Notre Dame and a JD from Northwestern University School of Law.

Mr. Ramirez was appointed Executive Vice President of Artisan Partners Asset Management in February 2016. From October 2013 to February 2016 he served as Senior Vice President and from April 2013 to October 2013 as Assistant Treasurer. He has been a managing director of Artisan Partners since April 2003. Mr. Ramirez currently has responsibility for overseeing vehicle administration and facilities and serves as chair of the Artisan Risk and Integrity Committee. He has served as chief financial officer, vice president and treasurer of Artisan Partners Funds, Inc. since February 2011. In addition, he has served as a director of Artisan Partners Global Funds since June 2010 and of certain private funds sponsored by Artisan Partners since 2017. His prior roles with Artisan Partners include controller, chief accounting officer and director of client accounting and administration. Mr. Ramirez holds a BBA in Accounting from the University of Iowa and an MBA from Marquette University. He is a Certified Public Accountant and holds a Series 27 license.

Under the terms of our stockholders agreement, our stockholders committee, which has the authority to vote approximately 18% of the combined voting power of our capital stock, is required to vote the shares subject to the agreement for the election of each of Mr. Barger and Mr. Colson. Under the agreement, Artisan is required to use its best efforts to elect Mr. Barger and Mr. Colson, which efforts must include soliciting proxies for, and recommending that the Company's stockholders vote in favor of, the election of each. For more information on the stockholders agreement and stockholders committee see Item 13 of this report. There are no family relationships among any of our directors or executive officers.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act and regulations of the SEC require our directors, executive officers and, with certain exceptions, persons who own more than 10% of a registered class of our equity securities, as well as certain affiliates of such persons, to file with the SEC reports of ownership of, and transactions in, our equity securities. These reporting persons are further required to provide us with copies of these reports.

Based solely on our review of such reports and written representations by the reporting persons, we believe that during the fiscal year ended December 31, 2018, our directors, officers and owners of more than 10% of a registered class of our equity securities complied with all applicable filing requirements.

Code of Ethics

Our Board has adopted a Code of Business Conduct applicable to all directors, officers and employees of the Company to provide a framework for the highest standards of professional conduct and foster a culture of honesty and accountability. The Code of Business Conduct satisfies applicable SEC requirements and NYSE listing standards. The Code of Business Conduct is available under the Corporate Governance link on our website at *www.apam.com*. We will provide a printed copy of the Code of Business Conduct to stockholders upon request.

We intend to post on our website at *www.apam.com*, all disclosures that are required by law or NYSE listing standards concerning any amendments to, or waivers from, any provision of our Code of Business Conduct.

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The Board and its Committees

The Board conducts its business through meetings of the Board and through meetings of its committees. The Board has three standing committees: an Audit Committee, a Compensation Committee and a Nominating and Corporate Governance Committee. The current members and chairpersons of the committees are:

Director*	Audit Committee	Compensation Committee	Nominating and Corporate Governance Committee
Matthew R. Barger	X		Chair
Seth W. Brennan		X	X
Tench Coxe		X	X
Stephanie G. DiMarco	Chair		
Jeffrey A. Joerres	X	Chair	
Andrew A. Ziegler			

*Our Board has determined that each of Matthew R. Barger, Seth W. Brennan, Tench Coxe, Stephanie G. DiMarco, Jeffrey A. Joerres and Andrew A. Ziegler is independent.

The Audit Committee is a separately-designated standing audit committee established in accordance with Section 3(a)(58)(A) of the Exchange Act. The Audit Committee is comprised solely of directors who meet the independence requirements under NYSE listing standards and the Securities Exchange Act, and who are "financially literate" under NYSE rules. The Board has determined that each member of the Audit Committee has "accounting or related financial management expertise" and qualifies as an "audit committee financial expert".

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Item 11. Executive Compensation

Compensation Discussion and Analysis

Summary

The core elements of our named executive officers' compensation are base salary, a performance based cash bonus, and performance based equity awards with long-term vesting provisions. At least 80% of each of our named executive officers' compensation is performance based. The following table shows the elements of compensation paid to our Chief Executive Officer (CEO), Chief Financial Officer (CFO) and the three other most highly compensated officers (collectively, the named executive officers) with respect to 2018, 2017 and 2016. The amounts in this table vary from the data and reporting conventions required by SEC rules in the Summary Compensation Table below.

			Performance Based Compensation				
				Equity Awards			
Name & Principal Position	**Year**	**Salary**	**Cash Bonus**	**Restricted Share Grant**	**Career Share Grant**	**Total Direct Compensation**	**Performance Based as % of Total**
Eric R. Colson	2018	$ 437,500	$ 5,000,000	$ 222,828	$ 222,806	$ 5,883,134	93%
Chief Executive Officer	2017	250,000	5,000,000	521,388	521,387	6,292,775	96%
	2016	250,000	4,800,000	141,500	141,500	5,333,000	95%
Charles J. Daley, Jr.	2018	287,500	1,950,000	57,300	57,300	2,352,100	88%
Chief Financial Officer	2017	250,000	1,950,000	129,855	129,855	2,459,710	90%
	2016	250,000	1,750,000	70,750	70,750	2,141,500	88%
Sarah A. Johnson	2018	287,500	1,150,000	57,300	57,300	1,552,100	81%
Chief Legal Officer	2017	250,000	1,150,000	88,538	88,537	1,577,075	84%
	2016	250,000	1,050,000	70,750	70,750	1,441,500	83%
Gregory K. Ramirez	2018	287,500	1,100,000	34,380	34,380	1,456,260	80%
Executive Vice President	2017	250,000	1,100,000	88,538	88,537	1,527,075	84%
	2016	250,000	1,025,000	70,750	70,750	1,416,500	82%
Jason A. Gottlieb	2018	287,500	2,600,000	458,400	458,400	3,804,300	92%
Executive Vice President	2017	250,000	2,500,000	260,694	260,694	3,271,388	92%

2018 business highlights include:

- 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 and our second highest annual revenues ever.
- 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, our second highest adjusted EPS ever.
- 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, the most we have ever declared with respect to a calendar year.

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2018 Executive Compensation

- Prior to 2018, the base salary for all of the firm’s managing directors, including the named executive officers, was $250,000. After reviewing industry and peer practices, the Compensation Committee determined to increase the base salary to $300,000 for all managing directors and to $500,000 for our Chief Executive Officer. The increases for the named executive officers were intended to increase the competitiveness of the base salaries by bringing them closer to the median level of the peer group salary information presented by the Committee’s compensation consultant, McLagan. The base salary increase represented the first ever base salary increase at Artisan for Mr. Colson, Mr. Daley, and Mr. Gottlieb.
- 2018 performance-based cash bonuses paid to Mr. Colson, Mr. Daley, Ms. Johnson, and Mr. Ramirez were flat compared to 2017 bonuses, and Mr. Gottlieb’s cash bonus increased 4.0%. The 2018 cash bonuses reflect the continued strong performance of the firm’s management team. During 2018, the management team successively executed the recruitment of Rezo Kanovich and the evolution of the Global Value team. The management team also maintained the firm’s high value added, investments-first culture, and continued to work with the investment teams to build more capable and enduring franchises. In addition, as described above, the firm had one of its most successful years ever in terms of financial outcomes.
- 2018 equity awards for each of the named executive officers other than Mr. Gottlieb were lower than 2017 awards as a result of a smaller firm-wide equity grant, the firm’s commitment to awarding approximately 90% of all equity awards to investment team members, and the firm’s lower stock price. The firm’s equity grant with respect to 2018 represented approximately 1.25% of total firm equity, compared to 2.00% with respect to 2017. Consistent with the firm’s practice, approximately 90% of the total awards for both 2017 and 2018 were awarded to investment team members. The stock price for determining the value of the 2018 award was $22.92 per share, compared to $39.35 per share for the 2017 award. Notwithstanding these factors, Mr. Gottlieb’s 2018 award was larger than his 2017 award as a result of the significant contributions he made to a number of key business accomplishments in 2018, including the recruitment of Rezo Kanovich and the evolution of the Global Value franchise.
- In February 2018, the Compensation Committee recommended and the Board approved equity ownership guidelines and a clawback policy for executive officers, both of which are described in greater detail below. As of December 31, 2018, each of our named executive officers held equity in excess of the amount specified in the equity ownership guidelines.
- During 2018, members of our management team met with representatives of many of our largest shareholders to discuss our firm and its business and financial performance. In the course of those conversations, no concerns were raised with any aspect of our executive compensation program.

Compensation Program Features

Our executive compensation program includes the following features that we believe reflect sound corporate pay governance:

- The vast majority of our executives’ total compensation is performance based.
- We do not have employment or other agreements that provide termination benefits outside the context of a change in control.
- Generally one-half of the shares awarded to our executive officers are career shares that, with certain exceptions, will only vest if and when the recipient retires from the Company in accordance with qualifying retirement conditions.
- All of our outstanding unvested equity awards to executive officers include double-trigger change in control provisions.
- We maintain equity ownership guidelines, pursuant to which executive officers are required to hold Company equity equal in value to eight times base salary for the Chief Executive Officer and three times base salary for all other executive officers.
- Our executive officers are subject to a clawback policy that permits the Board to recover incentive compensation from an executive officer if his or her fraud or willful misconduct led to a material restatement of financial results.
- We do not provide “golden parachute” tax gross ups.
- None of our named executive officers have bonus guarantees.
- We do not offer retirement income or pension plans other than the same 401(k) plan that is available to all employees.
- We do not maintain any benefit plans or perquisites that cover only one or more of our named executive officers.
- Our insider trading policy prohibits hedging or pledging of Company stock by our employees.
- Our Compensation Committee receives input from an independent compensation consultant.

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Pursuant to the equity ownership guidelines adopted in February 2018, executive officers are expected to own shares of the Company's common stock or Class B common units of Artisan Partners Holdings equal in value to eight times base salary for the Chief Executive Officer and three times base salary for all other executive officers. Current executive officers have a period of five years from the time the guidelines were adopted in February 2018 to comply with the ownership requirements. In addition, in the future, any individual becoming an executive officer will have a period of five years from the time of his or her designation as an executive officer to comply with the guidelines. As of December 31, 2018, each of our named executive officers held equity in excess of the amount specified in the equity ownership guidelines.

The clawback policy adopted in February 2018 provides that in the event of a material restatement of the Company's financial results within three years of the original reporting, the Board will review the facts and circumstances that led to the restatement and, if the Board determines that an executive officer engaged in fraud or willful misconduct leading to material noncompliance with any financial reporting requirements and the restatement, the Board may choose to recover incentive compensation paid to an executive officer in an amount that the Board determines is the difference between the amount of incentive compensation paid or granted to the executive officer and the amount of incentive compensation that would have been paid or granted to the executive officer based upon the restated financial results. Incentive compensation subject to this policy includes both cash bonuses and equity awards.

Objectives of the Compensation Program

We believe that to create long-term value for our stockholders our management team needs to focus on the following business objectives:

- Attracting, retaining, and cultivating top investment talent whose interests are aligned with our clients and stockholders.
- Delivering superior investment performance and client service.
- Achieving profitable and sustainable financial results.
- Expanding our investment capabilities through thoughtful growth.
- Continuing to diversify our sources of assets under management.

Our executive compensation program is designed to:

- Support our business strategy.
- Attract, motivate and retain highly talented, results-oriented individuals.
- Reward the achievement of superior and sustained long-term performance.
- Be flexible and responsive to evolving market conditions.
- Align the interests of our named executive officers with our stockholders.
- Provide competitive pay opportunities.

Elements of our Named Executive Officers' Compensation and Benefits

The elements of our named executive officer compensation program include:

- Base salary
- Performance based cash bonus
- Performance based equity awards
- Retirement benefits
- Other benefits

Base Salary

Base salaries are intended to provide our named executive officers with a degree of financial certainty and stability that does not depend on performance. Our named executive officers' base salaries represent a relatively small portion of their overall total direct compensation. We believe that the majority of their pay should be performance based.

Prior to 2018, the base salary for all of the firm's managing directors, including the named executive officers, was $250,000. After reviewing industry and peer practices, the Compensation Committee determined to increase the base salary to $300,000 for all managing directors and to $500,000 for our Chief Executive Officer. The increases for the named executive officers were intended to increase the competitiveness of the base salaries by bringing them closer to the median level of the peer group salary information presented by the Committee's compensation consultant, McLagan. The base salary increase represented the first ever base salary increase at Artisan for Mr. Colson, Mr. Daley, and Mr. Gottlieb.

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Performance Based Cash Bonus and Equity Awards

Annual cash bonuses and equity awards are determined at or after the end of each year and are based on the Compensation Committee's assessment of individual and company-wide performance measured over both annual and long-term periods.

In order to incentivize a holistic and long-term approach, focused on maintaining the firm's identity and integrity as a high value added, talent-centered investment firm with a variable expense operating model and strong balance sheet, we do not use predetermined incentive formulas. In addition, in determining executives' annual cash bonuses and equity awards, we consider both the shorter-term and the longer-term contributions of each executive and how those contributions will relate to the firm's long-term health and sustainability.

Consistent with the firm's historical practices, the Board and management believe that the vast majority of firm equity awards should be made to the firm's investment talent, not to the firm's executive officers. Since the firm's IPO in 2013, approximately 90% of each equity grant has been awarded to investment team members. By focusing equity grants on investment team members, the firm increases the incentives for, and the long-term alignment and retention of, its most critical employees. The Board and management agree that this is the best way to allocate equity awards at a talent-centered investment management firm. A consequence of this approach is that there is a limited amount of equity to allocate to non-investment team members, including executive officers. That is why a relatively small portion of each executive's annual performance based pay is in the form of equity compensation. Increasing the amount of equity awarded to named executive officers would necessarily decrease the amount awarded to investment team members.

The equity we do grant to our named executive officers is in the form of standard restricted shares and career shares. Our standard restricted shares vest pro-rata over the five years following the date of grant, subject to continued employment. For career shares to vest, both of the following conditions must be met:

- Pro rata time-vesting, under which 20% of the shares satisfy this condition in each of the five years following the year of grant.
- Qualifying retirement, which generally requires that the recipient (i) has been employed by us for at least 10 years at retirement; (ii) had provided 18 months prior written notice of retirement; and (iii) remains at the Company through the retirement notice period. Prior to February 2019, the required notice period was 3 years, which the Company could waive to no less than one year.

Career shares and standard restricted shares will also vest upon a termination of employment due to death or disability. In addition, after the fifth anniversary of the grant date, if the Company terminates a recipient without cause (as defined in the award agreement), career shares will fully vest. And after a change of control, if the Company terminates a named executive officer without cause or he or she resigns for good reason, in either case, within two years of the change in control, the shares will fully vest.

We intend to continue to grant annual equity-based awards to our named executive officers under the Omnibus Plan, which provides for a wide variety of equity awards. The size and structure of the equity awards granted with respect to 2018 may not be indicative of future awards. Future equity awards may be granted in a mix of restricted shares (both standard and career) and options and subject to both time- and performance-based vesting. We generally intend to continue to grant our named executive officers a 50-50 ratio of career shares and standard restricted shares.

Retirement Benefits

We believe that providing a cost-effective retirement benefit for the Company's employees is an important recruitment and retention tool. Accordingly, the Company maintains, and each of the named executive officers participates in, a contributory defined contribution retirement plan for all U.S.-based employees, and matches 100% of each employee's contributions (other than catch-up contributions by employees age 50 and older) up to the 2018 limit of $18,500. We also maintain retirement plans or make retirement plan contributions (or equivalent cash payments) for our employees based outside the U.S. The opportunity to participate in a retiree health plan, at the sole expense of the retiree, is available to employee-partners and career share recipients who have at least 10 years of service with us at the time of retirement.

Other Benefits

Our named executive officers participate in the employee health and welfare benefit programs we maintain, including medical, group life and long-term disability insurance, and health care savings accounts, on the same basis as all U.S. employees, subject to satisfying any eligibility requirements and applicable law. We also generally provide employer-paid parking or transit assistance and, for our benefit and convenience, on-site food and beverages; our named executive officers enjoy those benefits on the same terms as all of our employees.

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Determination of Compensation

Role of Compensation Committee, Board and Chief Executive Officer. Our Compensation Committee, which is comprised solely of directors who qualify as independent under applicable SEC and NYSE rules, has ultimate responsibility for all compensation decisions relating to our named executive officers. Other members of the Board regularly attend and participate in meetings of the Compensation Committee, and the members of the Compensation Committee and Board regularly meet in executive session without management present. The decisions of the Compensation Committee are reported to the entire Board.

Our Chief Executive Officer evaluates the performance of, and makes recommendations to our Compensation Committee regarding compensation matters involving, the other named executive officers. The Compensation Committee retains the ultimate authority to approve, reject or modify those recommendations. The Compensation Committee independently evaluates our Chief Executive Officer's performance and determines our Chief Executive Officer's compensation.

Use of Compensation Consultant. Our Compensation Committee has retained the services of McLagan, a compensation consultant, to provide advice regarding our named executive officer compensation program and information about compensation trends in the asset management industry. McLagan must receive pre-approval from the chairperson of our Compensation Committee prior to accepting any non-survey-related work from management. Our Compensation Committee has assessed the independence of McLagan pursuant to SEC rules and concluded that no conflict of interest exists that prevents McLagan from independently advising the Compensation Committee.

Peer Group Compensation Review. Our Compensation Committee considers the individual and aggregate pay levels, compensation structure, and financial performance of other asset management companies in connection with its compensation decision-making process. We do not seek to benchmark our executive compensation to that of our peers. Instead, the Compensation Committee reviews the information to stay informed of competitive pay levels, compensation structure, and compensation trends in the asset management industry.

Tax and Accounting Considerations. When it reviews compensation matters, our Compensation Committee considers the anticipated tax and accounting treatment of various payments and benefits to the Company and, when relevant, to its named executive officers, although these considerations are not dispositive.

Results of Advisory Votes on Executive Compensation. The Compensation Committee considers the results of the Company's advisory votes on compensation when determining the amount and type of compensation paid to the named executive officers and the structure of the executive compensation program generally. The Company's first advisory votes on executive compensation and frequency of advisory votes on executive compensation took place in connection with the Company's 2016 annual meeting of stockholders. The advisory votes resulted in the approval of the Company's 2015 executive compensation and a frequency of executive compensation advisory votes of every three years. The next advisory vote on executive compensation will occur in connection with the Company's 2019 annual meeting of stockholders, at which the stockholders will vote on the Company's 2018 executive compensation.

Shareholder Engagement. Since our IPO in 2013, members of our management team have regularly met with representatives of many of our largest shareholders. In the course of those conversations (including conversations in 2018), no concerns have been raised with any aspect of our executive compensation program.

2018 Executive Compensation Process and Decisions

At its January 2018 meeting, our Compensation Committee discussed target bonus amounts for each named executive officer and a set of strategic priorities and business and financial metrics against which to evaluate performance and determine bonuses for 2018. At each subsequent meeting, the Compensation Committee reviewed the status of the strategic priorities and assessed the Company's year-to-date business and financial metrics.

In January 2019 the Compensation Committee determined annual cash bonuses and equity awards based on its assessment of the named executive officers' execution of strategic priorities and our 2018 business and financial results. In shaping its decisions with respect to all of the named executive officers, the Compensation Committee considered the following:

- 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 and our second highest annual revenues ever.

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- 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, our second highest adjusted EPS ever.
- 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, the most we have ever declared with respect to a calendar year.

Based on these achievements and our financial and business performance, the Compensation Committee determined to pay 2018 cash incentive awards as follows: $5,000,000 for Mr. Colson; $1,950,000 for Mr. Daley; $1,150,000 for Ms. Johnson; $1,100,000 for Mr. Ramirez; and $2,600,000 for Mr. Gottlieb. The Compensation Committee also recommended, and our Board subsequently approved, equity grants in respect of 2018 to our named executive officers. The aggregate award constituted a total of approximately 1.0 million shares, of which a total of 72,443 shares (or 8% of the total grant) were awarded to our named executive officers as follows: 9,722 standard restricted shares and 9,721 career shares for Mr. Colson; 2,500 standard restricted shares and 2,500 career shares for Mr. Daley; 2,500 standard restricted shares and 2,500 career shares for Ms. Johnson; 1,500 standard restricted shares and 1,500 career shares for Mr. Ramirez; and 20,000 standard restricted shares and 20,000 career shares for Mr. Gottlieb.

Risk Management and Named Executive Officer Compensation

We have identified two primary risks relating to compensation: the risk that compensation will not be sufficient in amount or appropriately structured to attract and to retain talent, and the risk that compensation may provide unintended incentives. To combat the risk that our compensation might not be sufficient or be inappropriately structured, we strive to use a compensation structure, and set compensation levels, for all employees in a way that we believe promotes retention. We make equity awards subject to multi-year vesting schedules to provide a long-term component to our compensation program, and in 2014 we introduced career shares to our equity compensation program. We believe that both the structure and levels of compensation have aided us in attracting and retaining key personnel. To address the risk that our compensation programs might provide unintended incentives, we have deliberately kept our compensation programs simple and without formulaic incentives. We have not seen any employee behaviors motivated by our compensation policies and practices that create increased risks for our stockholders.

Based on the foregoing, we do not believe that our compensation policies and practices motivate imprudent risk taking. Consequently, we are satisfied that any potential risks arising from our employee compensation policies and practices are not reasonably likely to have a material adverse effect on the Company. Our Compensation Committee will continue to monitor the effects of its compensation decisions to determine whether risks are being appropriately managed.

Compensation Committee Interlocks and Insider Participation

The Compensation Committee consists of Seth W. Brennan, Tench Coxe and Jeffrey A. Joerres, each of whom is an independent director under the rules of the NYSE and our Governance Guidelines. None of the members of the Compensation Committee have been an officer or employee of the Company. None of our named executive officers serves on the board of directors or compensation committee of a company that has an executive officer that serves on our Board.

In connection with our initial public offering, we entered into agreements with all limited partners of Artisan Partners Holdings, including with entities associated with Tench Coxe. Information about the agreements, and transactions thereunder, are more fully discussed in Item 13 of this report.

Compensation Committee Report

The Compensation Committee has reviewed and discussed the above Compensation Discussion and Analysis with management, and based upon such review and discussion, has recommended to the Board that the Compensation Discussion and Analysis be included in Artisan Partners Asset Management’s annual report on Form 10-K and proxy statement.

Compensation Committee:

Jeffrey A. Joerres, Chairperson
Seth W. Brennan
Tench Coxe

The information contained in this report shall not be deemed to be “soliciting material” or “filed” or incorporated by reference in future filings with the SEC, or subject to the liabilities of Section 18 of the Exchange Act, except to the extent that the Company specifically requests that the information be treated as soliciting materials or incorporates it by reference into a document filed under the Securities Act of 1933, as amended, or the Exchange Act.

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Summary Compensation Table [1]

The following table provides information regarding the compensation earned during the years ended December 31, 2016, 2017 and 2018 by each of our named executive officers. Columns for "Option Awards", "Non-Equity Incentive Plan Compensation" and "Change in Pension Value and Nonqualified Deferred Compensation Earnings" do not appear in the following table as they do not pertain to the Company.

The applicable SEC rules require that the value of an equity award be attributed to the year in which the award was made (not the year with respect to which the award was made) for purposes of the Summary Compensation Table below. Accordingly, the stock awards reported for 2016, 2017, and 2018 reflect the awards made in January 2016, January 2017, and February 2018, respectively. Because we consider the value of the equity awards we make in January or February of each year to be a part of each named executive officer's compensation for the prior year, we have included those values in the row for the prior year in the table at the beginning of this Item 11, as well as in the first footnote below.

Name & Principal Position	**Year**	**Salary**	**Bonus** [2]	**Stock Awards**[3]	**All Other Compensation**[4]	**Total**
Eric R. Colson	2018	$437,500	$5,000,000	$1,042,775	$ 69,475	$6,549,750
Chief Executive Officer	2017	250,000	5,000,000	283,000	216,778	5,749,778
	2016	250,000	4,800,000	915,300	147,884	6,113,184
Charles J. Daley, Jr.	2018	287,500	1,950,000	259,710	63,798	2,561,008
Chief Financial Officer	2017	250,000	1,950,000	141,500	119,171	2,460,671
	2016	250,000	1,750,000	305,100	89,991	2,395,091
Sarah A. Johnson	2018	287,500	1,150,000	177,075	68,013	1,682,588
Chief Legal Officer	2017	250,000	1,150,000	141,500	100,036	1,641,536
	2016	250,000	1,050,000	305,100	81,956	1,687,056
Gregory K. Ramirez	2018	287,500	1,100,000	177,075	67,931	1,632,506
Executive Vice President	2017	250,000	1,100,000	141,500	98,803	1,590,303
	2016	250,000	1,025,000	305,100	81,108	1,661,208
Jason A. Gottlieb [5]	2018	287,500	2,600,000	521,388	44,506	3,453,394
Executive Vice President	2017	250,000	2,500,000	990,500	43,403	3,783,903

[1] The summary compensation table above includes the value of restricted shares that were granted to each named executive officer in each year presented, as required by SEC disclosure rules. The supplemental table below includes the value of the restricted shares that we granted to each named executive officer in 2017, 2018 and 2019 with respect to 2016, 2017 and 2018 performance, respectively.

Name	**Year**	**Salary**	**Bonus**	**Stock Awards**	**All Other Compensation**	**Total**
Eric R. Colson	2018	$437,500	$5,000,000	$445,634	$ 69,475	$5,952,609
	2017	250,000	5,000,000	1,042,775	216,778	6,509,553
	2016	250,000	4,800,000	283,000	147,884	5,480,884
Charles J. Daley, Jr.	2018	287,500	1,950,000	114,600	63,798	2,415,898
	2017	250,000	1,950,000	259,710	119,171	2,578,881
	2016	250,000	1,750,000	141,500	89,991	2,231,491
Sarah A. Johnson	2018	287,500	1,150,000	114,600	68,013	1,620,113
	2017	250,000	1,150,000	177,075	100,036	1,677,111
	2016	250,000	1,050,000	141,500	81,956	1,523,456
Gregory K. Ramirez	2018	287,500	1,100,000	68,760	67,931	1,524,191
	2017	250,000	1,100,000	177,075	98,803	1,625,878
	2016	250,000	1,025,000	141,500	81,108	1,497,608
Jason A. Gottlieb	2018	287,500	2,600,000	916,800	44,506	3,848,806
	2017	250,000	2,500,000	521,388	43,403	3,314,791

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(2) Amounts in this column represent the annual performance based cash bonus compensation earned by our named executive officers in 2018, 2017 and 2016, as applicable. The amounts for 2017 were paid in December 2017. The amounts for 2016 and 2018 were paid in February following each year presented.
(3) As discussed above, we consider the value of the equity awards we made in 2017, 2018 and 2019 to be a part of each named executive officer's compensation for 2016, 2017 and 2018, respectively. The grant date fair value of those awards is reflected accordingly in the "Stock Awards" and "Total" columns in the supplemental table in footnote 1. The values reported represent the grant date fair value as computed in accordance with FASB ASC Topic 718 based upon the price of our common stock at the grant date.
(4) Amounts in this column represent the aggregate dollar amount of all other compensation received by our named executive officers. All other compensation includes, but is not limited to (a) company matching contributions to contributory defined contribution plan accounts equal to

100% of their pre-tax contributions (excluding catch-up contributions for named executive officers age 50 and older) up to the limitations imposed under applicable tax rules, which contributions totaled $18,500 for each named executive officer in 2018; (b) health and vision insurance premiums and HSA contributions paid by the company for plans that are generally offered to all employees on a nondiscriminatory basis in the aggregate amount of approximately $25,000 for each named executive officer in 2018; and (c) reimbursement for 2018 self-employment payroll tax expense as follows: $25,187 for Mr. Colson; $18,031 for Mr. Daley; $20,416 for Ms. Johnson, and $20,334 for Mr. Ramirez.

(5) Because Mr. Gottlieb first became an executive officer in 2017, no disclosure is included for 2016.

Grants of Plan-Based Awards During 2018

The following table provides information regarding plan-based awards granted to each of our named executive officers in the year ended December 31, 2018.

Name	Grant Date	All Other Stock Awards: Number of Shares of Stock or Units (#)(1)	Grant Date Fair Value of Stock Awards ($)(2)
Eric R. Colson	2/1/2018	26,500	$ 1,042,775

Charles J. Daley, Jr.	2/1/2018	6,600	259,710
Sarah A. Johnson	2/1/2018	4,500	177,075
Gregory K. Ramirez	2/1/2018	4,500	177,075
Jason A. Gottlieb	2/1/2018	13,250	521,388

(1) Represents the number of restricted shares of our Class A common stock granted in February 2018, which were awarded as follows:

Name	**Standard Restricted Shares**	**Career Shares**
Eric R. Colson	13,250	13,250
Charles J. Daley, Jr.	3,300	3,300
Sarah A. Johnson	2,250	2,250
Gregory K. Ramirez	2,250	2,250
Jason A. Gottlieb	6,625	6,625

(2) Represents the grant date fair value as computed in accordance with FASB ASC Topic 718 based upon the price of our common stock at the grant date.

Outstanding Equity Awards at December 31, 2018

The following table provides information about the outstanding unvested equity-based awards held by each of our named executive officers as of December 31, 2018.

Name	**Number of Shares or Units of Stock That Have Not Vested(#)[(1)]**	**Market Value of Shares or Units of Stock That Have Not Vested($)[(2)]**
Eric R. Colson	69,400	$ 1,534,434
Charles J. Daley, Jr.	23,900	528,429
Sarah A. Johnson	21,800	481,998
Gregory K. Ramirez	21,200	468,732
Jason A. Gottlieb	66,613	1,472,813

(1) Represents the number of unvested restricted shares (both career shares and standard restricted shares) of Class A common stock as of December 31, 2018:

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Name	Standard Restricted Shares (A)	Career Shares (B)
Eric R. Colson	27,900	41,500
Charles J. Daley, Jr.	9,100	14,800
Sarah A. Johnson	8,050	13,750
Gregory K. Ramirez	7,950	13,250
Jason A. Gottlieb	59,988	6,625

(A) Standard restricted shares vest in five equal installments over the five years following the date of grant, provided that the holder remains employed through the vesting dates. The named executive officers' standard restricted shares will also vest upon a termination of employment on account of the holder's death or disability or upon a qualifying termination of employment in connection with a change in control.
(B) Career shares vest as described above in "Compensation Discussion and Analysis - Performance Based Cash Bonus and Equity Awards."
(2) Restricted shares of Class A common stock were valued based on the closing price of our Class A common stock on the NYSE on December 31, 2018, which was $22.11.

Equity Awards Vested During the Year Ended December 31, 2018

The following table provides information about the value realized by each of our named executive officers during the year ended December 31, 2018, upon the vesting of equity awards.

Name	Number of Shares Acquired on Vesting(#)	Value Realized on Vesting($)(1)
Eric R. Colson	10,150	$ 332,857
Charles J. Daley, Jr.	4,400	144,047
Sarah A. Johnson	3,300	108,429
Gregory K. Ramirez	3,200	105,191
Jason A. Gottlieb	14,246	476,244

(1) The value of the restricted shares of Class A common stock that vested during 2018 is based on the stock price of our Class A common stock on each respective vesting date.

CEO Pay Ratio - 32:1

Our CEO pay ratio compares our CEO's annual total compensation in 2018 to that of the median of the annual total compensation of all other Company employees (the "Median Employee") for the same period. The calculation of annual total compensation of all other employees was determined in the same manner as the "Total Compensation" shown for our CEO in the Summary Compensation Table above and therefore includes each employee's base, bonus, equity-based awards, and the value of all Company-paid benefits. We included all employees as of December 31, 2018 in our analysis.

The annual total compensation for 2018 for our CEO was $6,549,750 and for the Median Employee was $201,687. The resulting ratio of our CEO's pay to the pay of our Median Employee for 2018 is 32 to 1.

Pension Benefits

We do not sponsor or maintain any defined benefit pension or retirement benefits for the benefit of our employees.

Nonqualified Defined Contribution and Other Nonqualified Deferred Compensation Plans

We do not sponsor or maintain any nonqualified defined contribution or other nonqualified deferred compensation plans for the benefit of our employees.

Employment Agreements

We do not have employment agreements with any of our named executive officers. Upon commencement of employment, each named executive officer received an offer letter outlining the initial terms of employment, including base salary and cash incentive compensation. None of these terms affected compensation paid to our named executive officers in 2018 and will not affect compensation paid in future years.

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Each of the named executive officers has agreed, pursuant to his or her Class A restricted stock award agreements, to certain restrictive covenants, including agreements not to compete with Artisan, or solicit Artisan clients and employees, for one year after he or she ceases to be employed by Artisan. The enforceability of the restrictive covenants may be limited depending on the particular facts and circumstances.

Potential Payments Upon Termination or Change in Control

Our named executive officers are all employed on an "at will" basis, which enables us to terminate their employment at any time. Our named executive officers do not have agreements that provide severance benefits. We do not offer or have in place any formal retirement, severance or similar compensation programs providing for additional benefits or payments in connection with a termination of employment, change in job responsibility or change in control (other than our contributory defined contribution plan). Under certain circumstances, a named executive officer may be offered severance benefits to be negotiated at the time of termination.

Equity awards granted to our named executive officers are evidenced by an award agreement that sets forth the terms and conditions of the award and the effect of any termination event or a change in control on unvested awards. The effect of a termination event or change in control on outstanding equity awards varies by the type of award. The following table provides the value of equity acceleration that would have been realized for each of the named executive officers if he or she had been terminated on December 31, 2018 under the circumstances indicated (including following a change in control).

As discussed above, each of our named executive officers has been granted career shares that are designed to vest upon a qualifying retirement. A qualifying retirement requires 10 years of service with the Company as of the date of retirement and, for our named executive officers, 18 months advance notice of intent to retire. Career shares also include a pro rata time-vesting requirement, under which 20% of the shares become eligible for qualifying retirement vesting in each of the five years following the year of grant. While none of our named executive officers have provided us with notice of intent to retire, the amounts shown in the "Retirement" column reflect the value of career shares that have satisfied the time-vesting and 10 years of service requirements as of December 31, 2018 and would therefore be eligible to vest had the named executive officer satisfied the advance notice requirement and retired as of that date. In addition, the amount of shares received upon exchange of Class B common units that may be sold in any one-year period may also increase upon a named executive officer's retirement, so long as the officer provided us with sufficient notice of retirement and has at least 10 years of service at retirement.

	Death or Disability	**Qualifying Termination in Connection with Change in Control**	**Retirement**
Eric R. Colson			
Standard Restricted Shares [1]	$ 616,869	$ 616,869	$ —
Career Shares[2]	917,565	917,565	300,696
Charles J. Daley, Jr.			
Standard Restricted Shares [1]	201,201	201,201	—
Career Shares[2]	327,228	327,228	—
Sarah A. Johnson			
Standard Restricted Shares [1]	177,986	177,986	—
Career Shares[2]	304,013	304,013	126,027
Gregory K. Ramirez			
Standard Restricted Shares [2]	175,775	175,775	—
Career Shares[3]	292,958	292,958	117,183
Jason A. Gottlieb			
Standard Restricted Shares [1]	1,326,335	1,326,335	—
Career Shares[2]	146,479	146,479	—

(1) Represents the value of the accelerated vesting of restricted shares of Class A common stock based on the closing price of our Class A common stock on the NYSE on December 31, 2018, which was $22.11 per share. Any standard restricted shares will become fully vested upon the holder's death or disability or upon a qualifying termination of employment in connection with a change in control (subject to continued employment through such occurrence).

(2) Represents the value of the accelerated vesting and retirement vesting of career shares based on the closing price of our Class A common stock on the NYSE as of December 31, 2018, which was $22.11 per share. Any career shares will become fully vested upon the holder's death or disability or upon a qualifying termination of employment in connection with a change in control (subject to continued employment through such occurrence). Career shares also vest upon qualifying retirement, as discussed above.

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DIRECTOR COMPENSATION

The Company's director compensation program is designed to attract and retain highly qualified non-employee directors. For fiscal year2018, the director compensation program entitled non-employee directors to a cash component, designed to compensate directors for their service on the Board, and an equity component, designed to align the interests of the directors with those of the Company's stockholders.

For 2018, the standard equity component of the Company's director compensation program consisted of $100,000 of restricted stock units for each of the non-employee directors awarded under the Artisan Partners Asset Management Inc. 2013 Non-Employee Director Compensation Plan. The shares of Class A common stock underlying the restricted stock units will be delivered on the earlier to occur of (i) a change in control of APAM and (ii) the termination of the director's service as a director.

During 2018, each non-employee director was entitled to receive cash payments of $50,000, paid in four quarterly installments. The lead director and chairperson of our Audit Committee were entitled to receive an additional cash retainer of $50,000, and the chairpersons of each of the Compensation Committee and Nominating and Corporate Governance Committee were entitled to receive an additional cash retainer of $40,000. Each of our non-employee directors elected to receive the value of this cash compensation in the form of additional restricted stock units.

As a result, an additional number of restricted stock units were granted to each non-employee director in February of 2018, the value of which equaled the amount of cash compensation to which each director was entitled. One-quarter of the units awarded in lieu of cash compensation vested in each quarter of 2018.

In addition, all directors are reimbursed for reasonable out-of-pocket expenses incurred by them in connection with attending Board, committee and stockholder meetings, including those for travel, meals and lodging. These reimbursements are not reflected in the table below.

Mr. Colson does not receive any additional compensation for serving on the Board.

The following table provides information concerning the 2018 compensation of each non-employee director who served in fiscal year 2018.

Name	**Stock Awards**
Matthew R. Barger[(1)]	$190,000
Seth W. Brennan[(2)]	150,000
Tench Coxe[(3)]	150,000
Stephanie G. DiMarco[(4)]	200,000
Jeffrey A. Joerres[(5)]	190,000
Andrew A. Ziegler[(6)]	200,000

(1) On December 31, 2018, Mr. Barger had 26,339 restricted stock units outstanding.
(2) On December 31, 2018, Mr. Brennan had 17,062 restricted stock units outstanding.
(3) On December 31, 2018, Mr. Coxe had 21,790 restricted stock units outstanding.
(4) On December 31, 2018, Ms. DiMarco had 27,477 restricted stock units outstanding.
(5) On December 31, 2018, Mr. Joerres had 26,339 restricted stock units outstanding.
(6) On December 31, 2018, Mr. Ziegler had 24,449 restricted stock units outstanding.

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Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The following table sets forth information regarding the beneficial ownership of our common stock as of February 14, 2019, for:

- each person known by us to beneficially own more than 5% of any class of our outstanding shares, as of February 14, 2019;
- each of our named executive officers;
- each of our directors; and
- all of our named executive officers and directors as a group.

Because we have disclosed the ownership of shares of our Class B common stock and Class C common stock (which correspond to partnership units that are exchangeable for Class A common stock), the shares of Class A common stock underlying partnership units are not separately reflected in the table below.

Applicable percentage ownership is based on 54,357,336 shares of Class A common stock (including 293,891 restricted stock units that are currently outstanding), 8,645,249 shares of Class B common stock and 14,226,435 shares of Class C common stock outstanding at February 14, 2019. The aggregate percentage of combined voting power represents voting power with respect to all shares of our common stock voting together as a single class and is based on 76,935,129 total votes attributed to 76,935,129 total shares of outstanding common stock, as each share of our common stock entitles its holder to one vote per share.

Beneficial ownership is determined in accordance with the rules of the SEC. These rules generally attribute beneficial ownership of securities to persons who possess sole or shared voting power or investment power with respect to such securities. Except as otherwise indicated, all persons listed below have sole voting and investment power with respect to the shares beneficially owned by them, subject to applicable community property laws.

Information about securities authorized for issuance under equity compensation plans is included in Item 5 of this report.

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Except as otherwise indicated, the address for each stockholder listed below is c/o Artisan Partners Asset Management Inc., 875 E. Wisconsin Avenue, Suite 800, Milwaukee, Wisconsin 53202.

	Class A(1)		**Class B**		**Class C**		**Aggregate % of Combined Voting Power**
	No. of Shares	**% of Class**	**No. of Shares**	**% of Class**	**No. of Shares**	**% of Class**	
Directors and Named Executive Officers:							
Stockholders Committee(2)	5,535,767	10.2%	8,645,249	100%	—	—	18.3%
Eric R. Colson(3)	105,500	*	482,463	5.6%	—	—	—
Charles J. Daley, Jr.(3)(4)	35,500	*	97,779	1.1%	—	—	*
Jason A. Gottlieb(3)	79,488	*	—	—	—	—	—
Sarah A. Johnson(3)	36,500	*	94,464	1.1%	—	—	*
Gregory K. Ramirez(3)	35,400	*	77,364	*	—	—	*
Matthew R. Barger(5)	34,662	*	—	—	1,242,002	8.7%	1.6%
Seth W. Brennan(5)(6)	36,133	*	—	—	—	—	*
Tench Coxe(5)(7)	50,772	*	—	—	—	—	*
Stephanie G. DiMarco(5)(8)	107,316	*	—	—	—	—	*
Jeffrey A. Joerres(5)	38,162	*	—	—	—	—	*
Andrew A. Ziegler(5)(9)	33,210	*	—	—	3,455,973	24.3%	4.5%
Directors and named executive officers as a group (11 persons)	5,841,822	10.7%	8,645,249	100%	4,697,975	33.0%	24.6%
5+% Stockholders:							
MLY Holdings Corp.(3)(10)	—	—	2,188,429	25.3%	—	—	—
James C. Kieffer (3)	—	—	1,067,575	12.3%	—	—	—
Daniel J. O'Keefe(3)	1,051,911	1.9%	960,676	11.1%	—	—	*
N. David Samra(3)	1,070,929	2.0%	925,381	10.7%	—	—	—
James D. Hamel(3)	277,804	*	636,066	7.4%	—	—	—
Artisan Investment Corporation(9)	—	—	—	—	3,455,973	24.3%	4.5%
Scott C. Satterwhite	—	—	—	—	1,383,768	9.7%	1.8%
LaunchEquity Acquisition Partners, LLC (11)	—	—	—	—	1,121,196	7.9 %	1.5%
Patricia Christina Hellman Survivor's Trust	—	—	—	—	798,443	5.6%	1.0%
Arthur Rock 2000 Trust	—	—	—	—	1,153,280	8.1%	1.5%
Thomas F. Steyer	—	—	—	—	1,082,314	7.6%	1.4%
Big Fish Partners LLC	—	—	—	—	807,305	5.7%	1.0%
Kayne Anderson Rudnick Investment Management LLC(12)	3,948,438	7.3%	—	—	—	—	5.1%
The Vanguard Group(13)	4,779,353	8.8%	—	—	—	—	*
Blackrock Inc.(14)	3,680,976	6.8%	—	—	—	—	4.6%

*Less than 1%.

(1) Subject to certain exceptions, the persons who hold shares of our Class B common stock and Class C common stock (which correspond to partnership units that generally are exchangeable for Class A common stock) are currently deemed to have beneficial ownership over a number of shares of our Class A common stock equal to the number of shares of our Class B common stock and Class C common stock reflected in the table above, respectively. Because we have disclosed the ownership of shares of our Class B common stock and Class C common stock, the shares of Class A common stock underlying partnership units are not separately reflected in the table above.

(2) Each of our employees to whom we have granted equity has entered into a stockholders agreement pursuant to which they granted an irrevocable voting proxy with respect to all of the 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 currently consisting of Mr. Colson, Mr. Daley and Mr. Ramirez. All shares subject to the stockholders agreement are voted in accordance with the majority decision of those three members. Shares originally subject to the agreement cease to be subject to it when sold by the employee or upon the termination of the employee's employment with us.

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The number of shares of Class A and Class B common stock in this row includes all shares of Class A common stock and Class B common stock that we have granted to current employees and that have not yet been sold by those employees. As members of the stockholders committee, Mr. Colson, Mr. Daley and Mr. Ramirez share voting power over all of these shares. Other than as shown in the row applicable to each of them individually, none of Mr. Colson, Mr. Daley or Mr. Ramirez has investment power with respect to any of the shares subject to the stockholders agreement, and each disclaims beneficial ownership of such shares.

(3) Pursuant to the stockholders agreement, Mr. Colson, Mr. Daley, Mr. Gottlieb, Ms. Johnson, Mr. Ramirez, MLY Holdings Corp., Mr. Kieffer, Mr. O'Keefe, Mr. Samra and Mr. Hamel each granted an irrevocable voting proxy with respect to all of the shares of our common stock he or she has acquired from us and any shares he or she may acquire from us in the future to the stockholders committee as described in footnote 2 above. Each retains investment power with respect to the shares of our common stock he or she holds, which are the shares reflected in the row applicable to each person. 400 of Mr. Daley's shares, 1,400 of Mr. Ramirez's shares, 4,000 of Ms. Johnson's shares, and 18,555 of Mr. O'Keefe's shares are not subject to the stockholders agreement.

(4) Includes 200 shares of Class A common stock held by Mr. Daley's daughter.

(5) Includes the shares of Class A common stock underlying restricted stock units granted to our non-employee directors. The underlying shares will be delivered on the earlier to occur of (i) a change in control of Artisan and (ii) assuming the restricted stock units have vested, the termination of such person's service as a director. Mr. Coxe holds restricted stock units awarded to him for the benefit of the managing directors of the general partner of Sutter Hill Ventures.

(6) Includes 6,250 shares of Class A common stock held by a trust for the benefit of Mr. Brennan's children.

(7) Includes 22,411 shares of Class A common stock held by a trust of which Mr. Coxe is a co-trustee and beneficiary. Mr. Coxe shares voting and investment power over all of such shares of Class A common stock.

(8) Includes 20,308 shares of Class A common stock held by a charitable trust of which Ms. DiMarco is a trustee.

(9) The Class C shares reflected in the row applicable to Mr. Ziegler individually are owned by Artisan Investment Corporation. Mr. Ziegler and Carlene M. Ziegler, who are married to each other, control Artisan Investment Corporation.

(10) MLY Holdings Corp. is a Delaware corporation through which Mark L. Yockey holds his shares of Class B common stock. Mr. Yockey is the sole director of MLY Holdings Corp.

(11) LaunchEquity Acquisition Partners, LLC, is a manager-managed designated series limited liability company organized under the laws of the State of Delaware. Andrew C. Stephens is the sole manager of the designated series of LaunchEquity Acquisition Partners through which Mr. Stephens holds his shares of Class C common stock.

(12) This information has been derived from the Schedule 13G filed with the SEC on February 12, 2019 by Kayne Anderson Rudnick Investment Management LLC which states that Kayne Anderson Rudnick Investment Management had voting and dispositive power over 3,948,438 shares of Class A common stock as of December 31, 2018. The address of Kayne Anderson Rudnick Investment Management is 1800 Avenue of the Stars, Los Angeles, California, 90067.

(13) This information has been derived from the Schedule 13G filed with the SEC on February 11, 2019 by The Vanguard Group, Inc. which states that Vanguard Group had voting power over 105,436 shares and dispositive power over 4,779,353 shares of Class A common stock as of December 31, 2018. The address of the Vanguard Group is 100 Vanguard Blvd, Malvern, Pennsylvania, 19355.

(14) This information has been derived from the Schedule 13G filed with the SEC on February 4, 2019 by Blackrock Inc. which states that Blackrock had voting power over 3,569,846 shares and dispositive power over 3,680,976 shares of Class A common stock as of December 31, 2018. The address of Blackrock Inc. is 55 East 52nd Street, New York, NY 10055.

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Item 13. Certain Relationships and Related Transactions, and Director Independence

Transactions in Connection with our IPO

In March 2013, in connection with the initial public offering (“IPO”) of Artisan Partners Asset Management, we entered into the agreements described below with the limited partners of Artisan Partners Holdings, including the following persons and entities:

- Those of our currently-serving executive officers who own Class B common units of Artisan Partners Holdings.
- Artisan Investment Corporation (“AIC”), an entity controlled by Andrew A. Ziegler, our Lead Independent Director, and Carlene M. Ziegler. AIC owns all of the Class D common units of Artisan Partners Holdings.
- Private equity funds (the “H&F holders”) controlled by Hellman & Friedman LLC (“H&F”). Mr. Barger, one of our directors, is a senior advisor of H&F. The H&F holders no longer own any units of Artisan Partners Holdings or, to our knowledge, any shares of our common stock.
- Mr. Barger, who owns Class A common units of Artisan Partners Holdings.
- Sutter Hill Ventures, of which one of our directors, Mr. Coxe, is a managing director of the general partner, and two trusts of which Mr. Coxe is a co-trustee.
- Several other persons or entities who own Class A common units of Artisan Partners Holdings and greater than 5% of our outstanding Class C common stock.
- Several of our employees, or entities controlled by an employee, who own (or owned) Class B common units of Artisan Partners Holdings and greater than 5% of our outstanding Class B common stock.

The rights of each of the persons and entities listed above under the agreements discussed below are, in general, the same as the rights of each other holder of the same class of partnership units. So, for instance, the rights of our currently-serving executive officers that are holders of Class B common units, under the exchange, registration rights, partnership and tax receivable agreements described below are, in general, the same as the rights of each other holder of Class B common units. The descriptions of the transactions and agreements below, including the rights and ownership interests of the persons and entities listed above, are as of January 31, 2019, unless otherwise indicated.

Exchange Agreement

Under the exchange agreement, subject to certain restrictions (including those intended to ensure that Artisan Partners Holdings is not treated as a “publicly traded partnership” for U.S. federal income tax purposes), holders of partnership units have the right to exchange common units (together with an equal number of shares of our Class B common stock or Class C common stock, as applicable) for shares of our Class A common stock on a one-for-one basis. A partnership unit cannot be exchanged for a share of our Class A common stock without a share of our Class B common stock or Class C common stock, as applicable, being delivered together at the time of exchange for cancellation.

Holders of partnership units have the right to exchange units in a number of circumstances that are generally based on, but in several respects are not identical to, the “safe harbors” contained in the U.S. Treasury Regulations dealing with publicly traded partnerships. In accordance with the terms of the exchange agreement, partnership units are exchangeable: (i) in connection with the first underwritten offering in any calendar year pursuant to the resale and registration rights agreement; (ii) on a specified date each fiscal quarter; (iii) in connection with the holder’s death, disability or mental incompetence; (iv) as part of one or more exchanges by the holder and any related persons during any 30-calendar day period representing in the aggregate more than 2% of all outstanding partnership units (generally disregarding interests held by us); (v) if the exchange is of all of the partnership units held by AIC in a single transaction; (vi) in connection with a tender offer, share exchange offer, issuer bid, take-over bid, recapitalization or similar transaction with respect to our Class A common stock that is effected with the consent of our Board or in connection with certain mergers, consolidations or other business combinations; or (vii) if we permit the exchanges after determining that Artisan Partners Holdings would not be treated as a “publicly traded partnership” under Section 7704 of the Internal Revenue Code as a result. In general, we may provide for exchanges in addition to the exchanges that holders of partnership units are entitled to under the exchange agreement.

As the holders of limited partnership units exchange their units for Class A common stock, we receive a number of general partnership units, or GP units, of Artisan Partners Holdings equal to the number of shares of our Class A common stock that they receive, and an equal number of limited partnership units are canceled.

During the fiscal year ended December 31, 2018, holders of Class A, Class B and Class E common units exchanged an aggregate of 1,590,611 units for Class A common stock, and an equal number of shares of our Class B or Class C common stock, as applicable, were canceled. We expect that approximately 680,793 common units will be exchanged for Class A common stock on February 21, 2019.

Resale and Registration Rights Agreement

Under the resale and registration rights agreement, we have provided the holders of partnership units with certain registration rights. We have also established certain restrictions on the timing and manner of resales of Class A common stock received upon exchange of partnership units. In general, our Board may waive or modify the restrictions on resale described below.

We were required to file, and use our reasonable best efforts to cause the SEC to declare effective, two registration statements: (i) an exchange shelf registration statement registering all shares of our Class A common stock and convertible preferred stock to be issued upon exchange of partnership units, and (ii) a shelf registration statement registering secondary sales of Class A common stock issuable upon exchange of units or conversion of convertible preferred stock by AIC and the H&F holders, as applicable.

As of December 31, 2018, AIC owned 3,455,973 Class D common units exchangeable for an equal number of shares of our Class A common stock. There is no limit on the number of shares of our Class A common stock AIC may sell. AIC has the right to use the resale shelf registration statement to sell shares of Class A common stock, including the right to an unrestricted number of brokered transactions and, subject to certain limitations and qualifications, marketed and unmarketed underwritten shelf takedowns.

As of December 31, 2018, our employee-partners owned an aggregate of 8,645,249 Class B common units. Under the resale and registration rights agreement, in each 12-month period, the first of which began in the first quarter of 2014, each employee-partner is 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, including Mr. Colson and certain senior portfolio managers that own Class B common units of Artisan Partners Holdings and greater than 5% of our outstanding Class B common stock. 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 quarters of 2019, 2020, 2021 and 2022, subject to their maintaining a minimum dollar amount of firm equity. Units sold by employee-partners in connection with underwritten offerings or otherwise redeemed by us are included when calculating the maximum number of shares each employee-partner is permitted to sell in any one-year period. Our Board may waive or modify the resale limitations described in this paragraph.

In total, approximately 1.7 million shares will become eligible for sale by employee-partners in the first quarter of 2019. Combined with shares that previously became eligible but have not been sold, approximately 3.0 million Class B common units are eligible for sale in the first quarter of 2019. Because employee-partners and other employees are eligible to sell amounts of vested equity as described above and elsewhere in this 10-K, employees' equity ownership, in the aggregate, could significantly decline over the next five years.

Upon termination of employment with Artisan, an employee-partner's Class B common units are exchanged for Class E common units; the employee-partner's shares of Class B common stock are canceled; and we issue 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.

If the employee-partner's employment was terminated as a result of retirement, death or disability, the employee-partner or his or her estate may (i) as of and after the time of termination of employment, sell (A) a number of shares of our Class A common stock up to one-half of the employee-partner's aggregate number of vested common units and shares of Class A common stock received upon exchange of common units held as of the date of termination of employment or, (B) if greater, vested shares of our Class A common stock having a market value as of the time of sale of up to $250,000, and (ii) as of and after the first anniversary of the termination, the person's remaining shares of our Class A common stock received upon exchange of common units. Retirement, for these purposes, generally requires that the employee-partner 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 employee-partners who are lead 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.

If an employee-partner resigns or is terminated involuntarily, the employee-partner may in each 12-month period following the third, fourth, fifth and sixth anniversary of the termination, sell a number of shares of our Class A common stock up to one-fourth of the employee-partner's aggregate number of vested common units and shares of Class A common stock received upon exchange of common units held as of the date of termination of his or her employment (as well as the number of shares such employee-partner could have sold in any previous period or periods but did not sell in such period or periods).

As of December 31, 2018, former employee-partners owned an aggregate of 3,582,330 Class E common units, approximately 2.4 million of which may be sold during the first quarter of 2019.

As of December 31, 2018, our initial outside investors who are holders of Class A common units owned an aggregate of 7,188,132 Class A common units exchangeable for an equal number of shares of our Class A common stock. There is no limit on the number of shares of our Class A common stock the holders of Class A common units may sell.

We have paid and will continue to pay all expenses incident to our performance of any registration or marketing of securities pursuant to the resale and registration rights agreement, including reasonable fees and out-of-pocket costs and expenses of selling stockholders. We have also agreed to indemnify any selling stockholder, solely in their capacity as selling stockholders, against any losses or damages resulting from any untrue statement, or omission of material fact in any registration statement, prospectus or free writing prospectus pursuant to which they may sell shares of our Class A common stock, except to the extent the liability arose from their misstatement or omission of a material fact, in which case they have similarly agreed to indemnify us.

Amended and Restated Limited Partnership Agreement of Artisan Partners Holdings

As a holding company, we conduct all of our business activities through our direct subsidiary, Artisan Partners Holdings, an intermediate holding company, which wholly owns Artisan Partners Limited Partnership, our principal operating subsidiary. The rights and obligations of Artisan Partners Holdings' partners are set forth in its amended and restated limited partnership agreement.

We are the general partner of Artisan Partners Holdings and control its business and affairs and are responsible for the management of its business, subject to the voting rights of the limited partners as described below. No limited partners of Artisan Partners Holdings, in their capacity as such, have any authority or right to control the management of Artisan Partners Holdings or to bind it in connection with any matter.

Artisan Partners Holdings has outstanding GP units and common units. Net profits and net losses and distributions of profits of Artisan Partners Holdings are allocated and made to partners pro rata in accordance with the number of partnership units they hold. Artisan Partners Holdings is obligated to distribute to us and its other partners cash payments for the purposes of funding tax obligations of ours and theirs as partners of Artisan Partners Holdings. In order to make a share of our Class A common stock represent the same percentage economic interest, disregarding corporate-level taxes and payments with respect to the tax receivable agreements, in Artisan Partners Holdings as a common unit of Artisan Partners Holdings, we always hold a number of GP units equal to the number of shares of Class A common stock issued and outstanding.

As the general partner of Artisan Partners Holdings, we hold all GP units and control the business of Artisan Partners Holdings. Our approval, acting in our capacity as the general partner, along with the approval of holders of a majority of each class of limited partnership units (except the Class E common units), voting as a separate class, will be required to engage in a material corporate transaction; with certain exceptions, redeem or reclassify partnership units or interests in any subsidiary, issue additional partnership units or interests in any subsidiary, or create additional classes of partnership units or interests in any subsidiary; or make any in-kind distributions. If any of the foregoing affects only certain classes of partnership units, only the approval of us and the affected classes would be required. The approval rights of each class of partnership units will terminate when the holders of the respective class of units directly or indirectly cease to own units constituting at least 5% of the outstanding units of Artisan Partners Holdings.

The amended and restated limited partnership agreement may be amended with the consent of the general partner and the holders of a majority of the Class A common units, Class B common units and Class D common units, each voting as a separate class, provided that the general partner may, without the consent of any limited partner, make amendments that do not materially and adversely affect any limited partners. To the extent any amendment materially and adversely affects only certain classes of limited partners, only the holders of a majority of the units of the affected classes have the right to approve such amendment.

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Artisan Partners Holdings will indemnify AIC, as its former general partner, us, as its current general partner, the former members of its pre-IPO Advisory Committee, the members of our Stockholders Committee and our directors and officers against any losses, damages, costs or expenses (including reasonable attorney's fees, judgments, fines and amounts paid in settlement) actually incurred in connection with any threatened, pending or completed action, suit or proceeding, whether civil, criminal or administrative (including any action by or on behalf of Artisan Partners Holdings) arising as a result of the capacities in which they serve or served Artisan Partners Holdings to the maximum extent that any of them could be indemnified if Artisan Partners Holdings were a Delaware corporation and they were directors of such corporation. In addition, Artisan Partners Holdings will pay the costs or expenses (including reasonable attorneys' fees) incurred by the indemnified parties in advance of a final disposition of such matters so long as the indemnified party undertakes to repay the expenses if the party is adjudicated not to be entitled to indemnification.

Artisan Partners Holdings will also indemnify its officers and employees and officers and employees of its subsidiaries against any losses, damages, costs or expenses (including reasonable attorney's fees, judgments, fines and amounts paid in settlement) actually incurred in connection with any threatened, pending or completed action, suit or proceeding, whether civil, criminal or administrative arising as a result of their being an employee of Artisan Partners Holdings (or their serving as an officer or fiduciary of any of Artisan Partners Holdings' subsidiaries or benefit plans or any entity of which Artisan is sponsor or adviser), provided that no employee will be indemnified or reimbursed for any claim, obligation or liability adjudicated to have arisen out of or been based upon such employee's intentional misconduct, gross negligence, fraud or knowing violation of law.

Stockholders Agreement

Our employees (including all of our employee-partners) to whom we have granted equity 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 (which shares represent approximately 18% of the combined voting power of our capital stock as of February 14, 2019) and any shares they may acquire from us in the future 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). Any shares of our common stock that we issue to our employees in the future will be subject to the stockholders agreement so long as the agreement has not been terminated. Shares subject to the stockholders agreement will be voted in accordance with the majority decision of the three members of the stockholders committee.

The members of the stockholders committee must be Artisan employees and holders of shares subject to the agreement. If a member of the stockholders committee ceases to act as a member of the committee, our Chief Executive Officer (if he or she is a holder of shares subject to the stockholders agreement and is not already a member of the committee) will become a member of the committee. Otherwise, the two remaining members of the stockholders committee will jointly select a third member of the committee. Each member of the stockholders committee is entitled to indemnification from Artisan in his or her capacity as a member of the committee.

The stockholders agreement provides that in connection with our election of directors, the members of the stockholders committee will vote the shares subject to the agreement in support of the following:

- Matthew R. Barger, or, unless Mr. Barger is removed from the Board for cause, a successor selected by Mr. Barger who holds Class A common units, so long as the holders of the Class A common units beneficially own at least 5% of our outstanding capital stock. As of December 31, 2018, the holders of the Class A common units beneficially owned approximately 9% of our outstanding capital stock.

- A director nominee, initially Mr. Colson, designated by the stockholders committee who is an employee-partner.

Under the terms of the stockholders agreement, we are required to use our best efforts to elect the nominees described above, which efforts must include soliciting proxies for, and recommending that our stockholders vote in favor of, the election of each. Other than as provided above, under the terms of the stockholders agreement, the stockholders committee may in its discretion vote, or abstain from voting, all or any of the shares subject to the agreement on any matter on which holders of shares of our common stock are entitled to vote. The committee is specifically authorized to vote for its members as directors under the terms of the stockholders agreement.

At any time after the earlier of (i) the elimination of the Class B common stock's supervoting rights and (ii) March 12, 2018, parties to the stockholders agreement holding at least two-thirds of the shares subject to the agreement may terminate it provided that the stockholders committee is no longer obligated to vote in favor of a director nominee who is a Class A common unit holder. The elimination of the Class B common stock's supervoting rights occurred on February 9, 2018.

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Tax Receivable Agreements

We are party to two tax receivable agreements. The first tax receivable agreement is between APAM and the assignees of the Pre-H&F Corp Merger Shareholder that was the sole shareholder of our convertible preferred stock. As part of our IPO reorganization, a corporation ("H&F Corp") controlled by Hellman & Friedman LLC merged with and into us pursuant to an Agreement and Plan of Merger. As consideration for the merger, the shareholder of H&F Corp received shares of our convertible preferred stock (all of which were converted to shares of Class A common stock in June 2014), contingent value rights (which were subsequently terminated in November 2013), and the right to receive an amount of cash. The tax receivable agreement between APAM and the assignees of the Pre-H&F Merger Shareholder generally provides for the payment by APAM 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, (ii) net operating losses available as a result of the merger, and (iii) tax benefits related to imputed interest.

The second tax receivable agreement, with each current or former holder of limited partnership units or their assignees, generally provides for the payment by APAM to each of them 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 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.

For purposes of these tax receivable agreements, cash savings in tax are calculated by comparing our actual income tax liability to the amount we would have been required to pay had we not been able to utilize any of the tax benefits subject to the tax receivable agreements, unless certain assumptions apply. The tax receivable agreements will continue until all tax benefits have been utilized or expired, unless we exercise our right to terminate the agreements or we materially breach any of our material obligations under the agreements, in which cases our obligations under the agreements will accelerate. 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 purchases or exchanges of partnership units, the price of our Class A common stock at the time of such purchases or exchanges, the extent to which such transactions are taxable, the amount and timing of the taxable income we generate in the future and the tax rate then applicable and the portion of our payments under the tax receivable agreements constituting imputed interest or depreciable or amortizable basis. In addition, in the case of a change of control, our obligations will be based on different assumptions that may affect the amount of the payments required under the agreements.

As of December 31, 2018, we recorded a $369.4 million liability, representing amounts payable under the tax receivable agreements equal to 85% of the tax benefit we expect to realize from the merger described above and our purchase of Class A common units in connection with the IPO; our purchase of common and preferred units since the IPO; and the quarterly exchanges made by certain limited partners pursuant to the exchange agreement. The amount assumes 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. Additional purchases or exchanges of units of Artisan Partners Holdings will cause the liability to increase.

During 2018, we made payments under the tax receivable agreements totaling approximately $36 million in the aggregate. Of that amount, $21.4 million was paid to certain of our directors or entities associated with certain directors that hold or held Class C common stock; $8.0 million was paid to our employee-partners, including to certain of our currently-serving executive officers and several employee-partners, or entities controlled by employee-partners, who own greater than 5% of our outstanding Class B common stock; and $1.7 million to other persons or entities who own Class A or Class E common units of Artisan Partners Holdings and greater than 5% of our outstanding Class C common stock.

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 H&F Corp 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.

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Transactions in Connection with the 2018 Follow-On Offering

In February 2018, we entered into partnership unit purchase agreements with limited partners who elected to sell common units of Holdings to us. Pursuant to those agreements, we used the net proceeds of the issuance of 644,424 shares of our Class A common stock in February 2018 to purchase 644,424 common units from certain limited partners of Holdings, including several employee-partners, or entities controlled by employee-partners, who own greater than 5% of our outstanding Class B common stock. We purchased the units at a price equal to $33.33 per unit.

Indemnification Agreements

We have entered into an indemnification agreement with each of our executive officers, directors and the members of our Stockholders Committee that provides, in general, that we will indemnify them to the fullest extent permitted by Delaware law in connection with their service in such capacities. Due to the nature of the indemnification agreements, they are not the type of agreements that are typically entered into with or available to unaffiliated third parties.

Investments in Certain Artisan Private Funds

Several of our directors, executive officers and employees, including employees who own greater than 5% of our outstanding Class B common stock, have made seed investments in certain Artisan Private Funds. These investments provide the initial seed capital needed to support the launch of new investment strategies and products. Management and incentive fees are generally waived with respect to these investments. In the aggregate, $245,177 of management fees and $178,960 of incentive fees were waived during 2018 with respect to seed capital investments made by related-party investors.

Review, Approval or Ratification of Transactions with Related Persons

We have adopted a written policy regarding the approval, with certain exceptions, of any transaction or series of transactions in which we or any of our subsidiaries is a participant, the amount involved exceeds $120,000, and a “related party” (a director, director nominee, executive officer, or a person known to us to be the beneficial owner of more than 5% of any class of our voting securities, or any immediate family member of any of the foregoing) has a direct or indirect material interest (a “related-party transaction”). Under the policy, a related party must promptly disclose to our Chief Legal Officer any potential related-party transaction and all material facts about the transaction. The Chief Legal Officer will then assess whether the transaction constitutes a related-party transaction. If the Chief Legal Officer determines a transaction qualifies as such, he or she will communicate that information to the Audit Committee, to the Chair of the Audit Committee, if the Chief Legal Officer determines it is impracticable or undesirable to wait until the next committee meeting, or to the entire Board. Based on its consideration of all of the relevant facts and circumstances, the Audit Committee, the Chair of the Audit Committee or the Board, as applicable, will decide whether to approve such transaction and will generally approve only those transactions that are not inconsistent with our best interests. If we become aware of a related-party transaction that was not approved under this policy before it was entered into, the transaction will be referred to the Audit Committee or the entire Board, which will evaluate all options available, including ratification, amendment or termination of such transaction. Under the policy, any director who has an interest in a related-party transaction will recuse himself or herself from any formal action with respect to the transaction as deemed appropriate by the Audit Committee or Board.

Director Independence

The Board is composed of a majority of directors who satisfy the criteria for independence under the NYSE listing standards and do not have any material relationship with the Company. Our Board has determined that each of Matthew R. Barger, Seth W. Brennan, Tench Coxe, Stephanie G. DiMarco, Jeffrey A. Joerres and Andrew A. Ziegler is independent in accordance with NYSE listing standards and our Governance Guidelines, and does not have any relationship that would interfere with exercising independent judgment in carrying out his or her responsibilities as a director. See Item 10 for a list of the committees on which each director serves.

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Item 14. Principal Accountant Fees and Services

Audit and Non-Audit Fees

Aggregate fees for professional services rendered for us by PricewaterhouseCoopers LLP as of and for the fiscal years ended December 31, 2018 and 2017 are set forth below. The aggregate fees included in the “Audit Fees” and the “Audit-Related Fees” categories are fees billed *for* the fiscal year for the audits of our annual financial statements, reviews of quarterly financial statements and services that are customarily provided in connection with statutory or regulatory filings. The aggregate fees included in the “Tax Fees” and “All Other Fees” categories are fees for services performed *in* those fiscal years.

	Fiscal Year 2018	Fiscal Year 2017
Audit Fees	$937,600	$929,400
Audit Related Fees	367,700	380,200
Tax Fees	710,500	984,300
All Other Fees	4,600	3,600
Total	$2,020,400	$2,297,500

Audit Fees for the fiscal years ended December 31, 2018 and 2017 were for professional services rendered for the audits of our annual financial statements, reviews of quarterly financial statements and services that are customarily provided in connection with statutory or regulatory filings.

Audit-Related Fees for the fiscal years ended December 31, 2018 and 2017 were for reviews of registration statements filed with the SEC, consultations related to the accounting or disclosure treatment of transactions and attest services related to our compliance with the Global Investment Performance Standards (GIPS). For the year ended December 31, 2018 and 2017, audit-related fees also includes $210,000 and $173,000, respectively, for audit services provided to our sponsored investment products, including consolidated investment products.

Tax Fees for the fiscal years ended December 31, 2018 and 2017 were for domestic and foreign tax return compliance, including review of partner capital accounts, and consultations related to technical interpretations, applicable laws and regulations and tax accounting. During 2018, $144,000 of the tax fees related to tax return compliance and preparation.

Other Fees for the fiscal years ended December 31, 2018 and 2017 were license fees for professional publications.

Policy on Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Registered Public Accounting Firm

The Audit Committee is required to pre-approve, or adopt appropriate procedures to pre-approve, all audit and non-audit services to be provided by the independent auditors. The Committee will typically pre-approve specific types of audit, audit-related, tax and other services on an annual basis. The Committee pre-approves all other services on an individual basis throughout the year as the need arises. The Committee has delegated to its chairperson the authority to pre-approve independent auditor engagements between meetings of the Committee. Any such pre-approvals will be reported to the entire Committee at its next regular meeting.

All audit, audit-related and tax services for fiscal 2018 were pre-approved by the Audit Committee. In all cases, the Audit Committee concluded that the provision of such services by PricewaterhouseCoopers LLP was compatible with the maintenance of PricewaterhouseCoopers LLP’s independence.

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PART IV
Item 15. Exhibits, Financial Statement Schedules
(1) Financial Statements: The information required by this Item is contained in Item 8 of Part II of this report.
(2) Financial Statement Schedules: None
(3) Exhibits:

Exhibit No.	Description
2.1	Agreement and Plan of Merger between Artisan Partners Asset Management Inc. and H&F Brewer Blocker Corp. (1)
3.1	Restated Certificate of Incorporation of Artisan Partners Asset Management Inc. (1)
3.2	Amended and Restated Bylaws of Artisan Partners Asset Management Inc. (1)
10.1	Fifth Amended and Restated Limited Partnership Agreement of Artisan Partners Holdings LP (1)
10.2	Amended and Restated Resale and Registration Rights Agreement (1)
10.3	Exchange Agreement (1)
10.4	Tax Receivable Agreement (Merger) (1)
10.5	Tax Receivable Agreement (Exchanges) (1)
10.6	Stockholders Agreement (1)
10.7	Artisan Partners Asset Management Inc. 2013 Omnibus Incentive Compensation Plan (1)
10.8	Artisan Partners Asset Management Inc. 2013 Non-Employee Director Plan (1)
10.9	Form of Artisan Partners Holdings LP Restated Class B Common Units Grant Agreement (1)
10.10	Form of Indemnification Agreement (1)
10.11	Form of Indemnification Priority Agreement (1)
10.12	Form of Artisan Partners Asset Management Inc. 2013 Non-Employee Director Plan - Restricted Share Unit Award Agreement (1)
10.13	Form of Artisan Partners Asset Management Inc. 2013 Omnibus Incentive Compensation Plan - Restricted Share Award Agreement
10.14	Form of Artisan Partners Asset Management Inc. 2013 Omnibus Incentive Compensation Plan - Career Share Award Agreement
10.15	Form of Artisan Partners Asset Management Inc. 2013 Omnibus Incentive Compensation Plan - Amended and Restated Restricted Share Award Agreement
10.16	Form of Artisan Partners Asset Management Inc. 2013 Omnibus Incentive Compensation Plan - Amended and Restated Career Share Award Agreement
10.17	Form of Artisan Partners Asset Management Inc. 2013 Omnibus Incentive Compensation Plan - Franchise Share Award Agreement
10.18	Form of Unit Purchase Agreement (1)
10.19	Second Amended and Restated Investment Advisory Agreement between Artisan Partners Limited Partnership and Artisan Partners Funds, Inc.
10.20	Note Purchase Agreement, dated as of August 16, 2017, among Artisan Partners Holdings LP and the purchasers listed therein (2)
10.21	Amended and Restated Five-Year Revolving Credit Agreement, dated as of August 16, 2017, among Artisan Partners Holdings LP, the lenders named therein, and Citibank, N.A., as Administrative Agent (2)
10.22	Note Purchase Agreement, dated August 16, 2012, as amended September 15, 2017, among Artisan Partners Holdings LP and the purchasers listed therein (3)
21.1	Subsidiaries of the Registrant
23.1	Consent of Independent Registered Public Accounting Firm
31.1	Certification of the Company’s Chief Executive Officer pursuant to Exchange Act Rules 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of the Company’s Chief Financial Officer pursuant to Exchange Act Rules 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1	Certification of the Company's Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of the Company's Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	The following Extensible Business Reporting Language (XBRL) documents are collectively included herewith as Exhibit 101: (i) the Consolidated Statements of Financial Condition as of December 31, 2018 and 2017; (ii) the Consolidated Statements of Operations for the years ended December 31, 2018, 2017 and 2016; (iii) the Consolidated Statements of Comprehensive Income for the years ended December 31, 2018, 2017 and 2016; (iv) the Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 2018, 2017 and 2016; (v) the Consolidated Statements of Cash Flows for the years ended December 31, 2018, 2017 and 2016 and (vi) the Notes to Consolidated Financial Statements as of and for the years ended December 31, 2018, 2017 and 2016

(1) incorporated by reference to Form 10-K filed by Artisan Partners Asset Management Inc. on February 25, 2016

(2) incorporated by reference to the Company's Current Report on Form 8-K, filed with the SEC on August 18, 2017

(3) incorporated by reference to Form 10-Q, filed with the SEC on November 1, 2017

Item 16. Form 10-K Summary

None.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Artisan Partners Asset Management Inc.

Dated: February 20, 2019
By:
/s/ Eric R. Colson
Eric R. Colson
President, Chief Executive Officer and Chairman of the Board
(principal executive officer)

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant in the capacities indicated on the 20th day of February, 2019.

Signature	**Title**
/s/ Matthew R. Barger	Director
Matthew R. Barger	
/s/ Seth W. Brennan	Director
Seth W. Brennan	
/s/ Tench Coxe	Director
Tench Coxe	
/s/ Stephanie G. DiMarco	Director
Stephanie G. DiMarco	
/s/ Jeffrey A. Joerres	Director
Jeffrey A. Joerres	
/s/ Andrew A. Ziegler	Director
Andrew A. Ziegler	