

Edgar Filing: Artisan Partners Asset Management Inc. - Form 10-Q

Artisan Partners Asset Management Inc.  
Form 10-Q  
August 02, 2016  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

Form 10-Q

(Mark  
One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934  
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2016

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

Commission file number: 001-35826

Artisan Partners Asset Management Inc.  
(Exact name of registrant as specified in its charter)

Delaware	45-0969585
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

875 E. Wisconsin Avenue, Suite 800	53202
Milwaukee, WI	
(Address of principal executive offices)	(Zip Code)

(414) 390-6100  
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer  Accelerated filer   
(Do not  
check if a  
Non-accelerated filer  smaller reporting company

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

The number of outstanding shares of the registrant’s Class A common stock, par value \$0.01 per share, Class B common stock, par value \$0.01 per share, and Class C common stock, par value \$0.01 per share, as of July 29, 2016 were 42,025,712, 16,820,578 and 15,629,101, respectively.

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

## Forward-Looking Statements

This report contains, and from time to time our management may make, forward-looking statements within the meaning of the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. In some cases, you can identify these statements by forward-looking words such as "may", "might", "will", "should", "expects", "intends", "p", "anticipates", "believes", "estimates", "predicts", "potential" or "continue", the negative of these terms and other comparable terminology. These forward-looking statements are only predictions based on current expectations and projections about future events. These forward-looking statements are subject to a number of risks and uncertainties, and there are important factors that could cause actual results, level of activity, performance, actions or achievements to differ materially from the results, level of activity, performance, actions or achievements expressed or implied by the forward-looking statements. These factors include: the loss of key investment professionals or senior management, adverse market or economic conditions, poor performance of our investment strategies, change in the legislative and regulatory environment in which we operate, operational or technical errors or other damage to our reputation and other factors disclosed in the Company's filings with the Securities and Exchange Commission, including those factors listed under the caption entitled "Risk Factors" in Item 1A of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2015, filed with the SEC on February 25, 2016, which is accessible on the SEC's website at [www.sec.gov](http://www.sec.gov). We undertake no obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise, except as required by law.

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

- our anticipated future results of operations;
  - our potential operating performance and efficiency;
  - our expectations with respect to future levels of assets under management, inflows and outflows;
  - our financing plans, cash needs and liquidity position;
  - our intention to pay dividends and our expectations about the amount of those dividends;
  - our expected levels of compensation of our employees;
  - our expectations with respect to future expenses and the level of future expenses;
  - our expected tax rate, and our expectations with respect to deferred tax assets; and
  - our estimates of future amounts payable pursuant to our tax receivable agreements.
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## Part I — Financial Information

## Item 1. Unaudited Consolidated Financial Statements

## ARTISAN PARTNERS ASSET MANAGEMENT INC.

## Unaudited Condensed Consolidated Statements of Financial Condition

(U.S. dollars in thousands, except per share amount)

	June 30, 2016	December 31, 2015
<b>ASSETS</b>		
Cash and cash equivalents	\$ 197,789	\$ 166,193
Accounts receivable	62,824	60,058
Investment securities	10,479	10,290
Property and equipment, net	19,466	17,995
Deferred tax assets	691,919	678,537
Prepaid expenses and other assets	13,420	12,773
Total assets	\$ 995,897	\$ 945,846
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Accounts payable, accrued expenses, and other	\$ 25,616	\$ 27,132
Accrued incentive compensation	63,896	13,748
Borrowings	199,395	199,314
Amounts payable under tax receivable agreements	591,741	589,101
Total liabilities	880,648	829,295
Commitments and contingencies		
Common stock		
Class A common stock (\$0.01 par value per share, 500,000,000 shares authorized, 42,025,712 and 39,432,605 shares outstanding at June 30, 2016 and December 31, 2015, respectively)	420	394
Class B common stock (\$0.01 par value per share, 200,000,000 shares authorized, 16,820,578 and 18,327,222 shares outstanding at June 30, 2016 and December 31, 2015, respectively)	169	183
Class C common stock (\$0.01 par value per share, 400,000,000 shares authorized, 15,629,101 and 15,649,101 shares outstanding at June 30, 2016 and December 31, 2015, respectively)	156	157
Additional paid-in capital	111,944	116,448
Retained earnings	12,444	13,238
Accumulated other comprehensive income (loss)	(1,009 )	(375 )
Total stockholders' equity	124,124	130,045
Noncontrolling interest - Artisan Partners Holdings	(8,875 )	(13,494 )
Total equity	115,249	116,551
Total liabilities and equity	\$ 995,897	\$ 945,846

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

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## ARTISAN PARTNERS ASSET MANAGEMENT INC.

## Unaudited Consolidated Statements of Operations

(U.S. dollars in thousands, except per share amounts)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2016	2015	2016	2015
Revenues				
Management fees	\$ 180,138	\$ 210,426	\$ 354,516	\$ 413,655
Performance fees	630	1,147	781	1,493
Total revenues	\$ 180,768	\$ 211,573	\$ 355,297	\$ 415,148
Operating Expenses				
Compensation and benefits				
Salaries, incentive compensation and benefits	88,011	93,708	175,491	192,135
Pre-offering related compensation - share-based awards	7,136	10,650	14,955	21,064
Total compensation and benefits	95,147	104,358	190,446	213,199
Distribution and marketing	8,404	11,736	16,562	23,398
Occupancy	3,186	2,954	6,367	5,966
Communication and technology	8,480	6,441	15,697	11,654
General and administrative	6,538	7,771	12,487	14,789
Total operating expenses	121,755	133,260	241,559	269,006
Total operating income	59,013	78,313	113,738	146,142
Non-operating income (loss)				
Interest expense	(2,934 )	(2,978 )	(5,839 )	(5,857 )
Net investment income (loss)	(18 )	416	(18 )	416
Net gain (loss) on the tax receivable agreements	—	—	—	(6,427 )
Other non-operating income (expense)	49	4	64	9
Total non-operating income (loss)	(2,903 )	(2,558 )	(5,793 )	(11,859 )
Income before income taxes	56,110	75,755	107,945	134,283
Provision for income taxes	12,634	16,497	24,151	21,579
Net income before noncontrolling interests	43,476	59,258	83,794	112,704
Less: Net income attributable to noncontrolling interests - Artisan Partners Holdings	25,092	35,522	49,149	69,454
Net income attributable to Artisan Partners Asset Management Inc.	\$ 18,384	\$ 23,736	\$ 34,645	\$ 43,250
Basic and diluted earnings per share	\$0.38	\$0.50	\$0.74	\$0.95
Basic and diluted weighted average number of common shares outstanding	38,023,586	35,992,493	37,497,268	34,322,266
Dividends declared per Class A common share	\$0.60	\$0.60	\$1.60	\$2.15

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

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2016	2015	2016	2015
Net income before noncontrolling interests	\$43,476	\$59,258	\$83,794	\$112,704
Other comprehensive income (loss), net of tax				
Unrealized gain (loss) on investment securities:				
Unrealized gain (loss) on investment securities, net of tax of \$49, \$(19), \$50, and \$69, respectively	163	333	137	563
Less: reclassification adjustment for gain (loss) included in net income	(18	) 416	(18	) 416
Net unrealized gain (loss) on investment securities	181	(83	) 155	147
Foreign currency translation gain (loss)	(922	) 534	(1,209	) 112
Total other comprehensive income (loss)	(741	) 451	(1,054	) 259
Comprehensive income	42,735	59,709	82,740	112,963
Comprehensive income attributable to noncontrolling interests - Artisan Partners Holdings	24,801	35,721	48,729	69,552
Comprehensive income attributable to Artisan Partners Asset Management Inc.	\$17,934	\$23,988	\$34,011	\$43,411

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

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## ARTISAN PARTNERS ASSET MANAGEMENT INC.

## Unaudited Consolidated Statements of Changes in Stockholders' Equity

(U.S. dollars in thousands)

	Class A Common stock	Class B Common stock	Class C Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Non-controlling interest - Artisan Partners Holdings	Total equity
Balance at January 1, 2016	\$ 394	\$ 183	\$ 157	\$ 116,448	\$ 13,238	\$ (375)	\$ (13,494)	\$ 116,551
Net income	—	—	—	—	34,645	—	49,149	83,794
Other comprehensive income - foreign currency translation	—	—	—	—	—	(671)	(538)	(1,209)
Other comprehensive income - available for sale investments, net of tax	—	—	—	—	—	79	77	156
Cumulative impact of changes in ownership of Artisan Partners Holdings LP, net of tax	—	—	—	(2,168)	—	(42)	2,209	(1)
Amortization of equity-based compensation	—	—	—	21,002	(409)	—	16,363	36,956
Deferred tax assets, net of amounts payable under tax receivable agreements	—	—	—	6,686	—	—	—	6,686
Issuance of Class A common stock, net of issuance costs	—	—	—	(22)	—	—	—	(22)
Forfeitures	—	—	—	—	—	—	—	—
Issuance of restricted stock awards	11	—	—	(11)	—	—	—	—
Employee net share settlement	—	—	—	(180)	—	—	(154)	(334)
Exchange of subsidiary equity	15	(14)	(1)	—	—	—	—	—
Distributions	—	—	—	—	—	—	(62,424)	(62,424)
Dividends	—	—	—	(29,811)	(35,030)	—	(63)	(64,904)
Balance at June 30, 2016	\$ 420	\$ 169	\$ 156	\$ 111,944	\$ 12,444	\$ (1,009)	\$ (8,875)	\$ 115,249

  

	Class A Common stock	Class B Common stock	Class C Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Non-controlling interest - Artisan Partners Holdings	Total equity
Balance at January 1, 2015	\$ 342	\$ 215	\$ 172	\$ 93,524	\$ 16,417	\$ 206	\$ (3,377)	\$ 107,499
Net income	—	—	—	—	43,250	—	69,454	112,704
Other comprehensive income - foreign currency translation	—	—	—	—	—	72	40	112
Other comprehensive income - available for sale investments, net of tax	—	—	—	—	—	60	122	182
Cumulative impact of changes in ownership of Artisan Partners Holdings LP, net of tax	—	—	—	(5,235)	—	29	5,171	(35)
Amortization of equity-based compensation	—	—	—	20,507	—	—	18,884	39,391



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Deferred tax assets, net of amounts payable under tax receivable agreements	—	—	—	25,987	—	—	—	25,987
Issuance of Class A common stock, net of issuance costs	38	—	—	175,976	—	—	—	176,014
Forfeitures	—	(4	) 3	1	—	—	—	—
Issuance of restricted stock awards	6	—	—	(6	)—	—	—	—
Exchange of subsidiary equity	5	(3	) (2	)—	—	—	—	—
Purchase of equity and subsidiary equity	—	(24	) (14	) (176,520	)—	—	—	(176,558 )
Distributions	—	—	—	—	—	—	(96,657	) (96,657 )
Dividends	—	—	—	(32,783	) (43,827	)—	—	(76,610 )
Balance at June 30, 2015	\$ 391	\$ 184	\$ 159	\$ 101,451	\$ 15,840	\$ 367	\$ (6,363	) \$ 112,029

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

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## ARTISAN PARTNERS ASSET MANAGEMENT INC.

## Unaudited Consolidated Statements of Cash Flows

(U.S. dollars in thousands)

	For the Six Months Ended June 30,	
	2016	2015
Cash flows from operating activities		
Net income before noncontrolling interests	\$83,794	\$112,704
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,417	2,086
Deferred income taxes	16,847	7,761
Capital gains on the sale of investment securities	18	(416 )
Net loss on the tax receivable agreements	—	6,427
Loss on disposal of property and equipment	34	17
Amortization of debt issuance costs	224	224
Share-based compensation	36,956	39,391
Excess tax benefit on share-based awards	—	(1,153 )
Change in assets and liabilities resulting in an increase (decrease) in cash:		
Accounts receivable	(2,767 )	(7,364 )
Prepaid expenses and other assets	(2,099 )	(1,846 )
Accounts payable and accrued expenses	49,198	60,795
Class B liability awards	(574 )	(4,161 )
Deferred lease obligations	38	(155 )
Net cash provided by operating activities	184,086	214,310
Cash flows from investing activities		
Acquisition of property and equipment	(3,442 )	(1,175 )
Leasehold improvements	(429 )	(1,597 )
Proceeds from sale of investment securities	10	965
Purchase of investment securities	(14 )	(6,750 )
Net cash used in investing activities	(3,875 )	(8,557 )
Cash flows from financing activities		
Partnership distributions	(62,424 )	(96,657 )
Dividends paid	(64,904 )	(76,610 )
Change in other liabilities	—	(34 )
Payment under the tax receivable agreements	(20,953 )	—
Net proceeds from issuance of common stock	—	176,558
Payment of costs directly associated with the issuance of Class A common stock	—	(425 )
Purchase of equity and subsidiary equity	—	(176,558 )
Taxes paid related to employee net share settlement	(334 )	—
Excess tax benefit on share-based awards	—	1,153
Net cash used in financing activities	(148,615 )	(172,573 )
Net increase (decrease) in cash and cash equivalents	31,596	33,180
Cash and cash equivalents		
Beginning of period	166,193	182,284
End of period	\$197,789	\$215,464
Supplementary information		
Noncash activity:		
Establishment of deferred tax assets	\$30,279	\$128,788

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Establishment of amounts payable under tax receivable agreements	23,593	103,954
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The accompanying notes are an integral part of the consolidated financial statements.

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## ARTISAN PARTNERS ASSET MANAGEMENT INC.

## Notes to Unaudited Consolidated Financial Statements

(U.S. currencies in thousands, except per share or per unit amounts and as otherwise indicated)

## Note 1. Nature of Business and Organization

## Nature of Business

Artisan Partners Asset Management Inc. (“APAM” or “Artisan”) is an investment management firm focused on providing high-value added, active investment strategies to sophisticated clients globally. Artisan has seven autonomous investment teams that manage a broad range of U.S., non-U.S. and global investment strategies.

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 June 30, 2016, APAM held approximately 56% of the equity ownership interest in Holdings.

APAM has been allocated a part of Artisan Partners Holdings’ net income since March 12, 2013, when it became Holdings’ general partner. APAM and its subsidiaries are hereafter referred to collectively as “Artisan” or the “Company”.

## Holdings Unit Exchanges

During the six months ended June 30, 2016, certain limited partners of Artisan Partners Holdings exchanged common units (along with a corresponding number of shares of Class B or C common stock of APAM) for shares of Class A common stock (the “Holdings Common Unit Exchanges”). The following common units were exchanged for APAM Class A common stock during the six months ended June 30, 2016:

	Total Common Units Exchanged	Class A Common Units	Class B Common Units	Class E Common Units
Common units exchanged on March 3, 2016	764,971	—	754,971	10,000
Common units exchanged on May 3, 2016	761,673	—	751,673	10,000
Total Units Exchanged in 2016	1,526,644	—	1,506,644	20,000

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 a combined increase to deferred tax assets of approximately \$27.8 million and an increase in amounts payable under the tax receivable agreements of approximately \$23.6 million.

## Note 2. Summary of Significant Accounting Policies

## Basis of presentation

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

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The consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”) for interim financial reporting and accordingly they do not include all of the information and footnotes required in the annual consolidated financial statements and accompanying footnotes. The year-end condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by U.S. GAAP. As a result, the interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in APAM’s latest annual report on Form 10-K.

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

### Principles of consolidation

Artisan's policy is to consolidate all subsidiaries or other entities in which it has a controlling financial interest. The consolidation guidance requires an analysis to determine if an entity should be evaluated for consolidation using the voting interest entity ("VOE") model or the variable interest entity ("VIE") model. Under the VOE model, controlling financial interest is generally defined as a majority ownership of voting interests. Under the VIE model, controlling financial interest is defined as the power to direct activities that most significantly impact the economic performance of the entity and the right to receive potentially significant benefits or the obligation to absorb potentially significant losses. 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 for Artisan Partners Funds, Inc. ("Artisan Funds"), a family of mutual funds registered with the SEC under the Investment Company Act of 1940, and Artisan Partners Global Funds plc ("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 all voting rights, including the right to elect and reelect members of their respective boards of directors. As a result, each of these entities is a VOE and is evaluated for consolidation under the VOE model.

The Company makes initial seed investments in sponsored investment portfolios, including series of Artisan Funds and Artisan Global Funds, at the portfolio's formation, which are made on the same terms as are available to other investors. If the seed investment results in a controlling financial interest, APAM consolidates the fund, and the underlying individual securities are accounted for as trading securities. Seed investments in which the Company does not have a controlling financial interest are classified as available-for-sale investments. As of June 30, 2016, APAM does not have a controlling financial interest in any sponsored investment portfolio or series of Artisan Funds or Artisan Global Funds and therefore does not consolidate these entities.

### Recent accounting pronouncements

#### Accounting standards adopted as of January 1, 2016

In February 2015, the Financial Accounting Standards Board ("FASB") issued ASU 2015-02, Amendments to the Consolidation Analysis. The ASU modified existing consolidation guidance for determining whether certain legal entities should be consolidated. The ASU eliminated the deferral under ASU 2010-10, Amendments for Certain Investment Funds, and, as a result, the Company must apply the new guidance to all entities, including investment companies. The presumption that a general partner controls a limited partnership was eliminated. In addition, fees paid to decision makers that meet certain conditions no longer cause the decision makers to consolidate VIEs, in certain instances. The new guidance was effective on January 1, 2016, and did not impact the Company's consolidated financial statements for the periods presented.

In April 2015, the FASB issued ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs, which requires debt issuance costs to be presented in the balance sheet as a direct deduction from the note liability, rather than presented as an asset. The new guidance was effective on January 1, 2016, and requires a retrospective approach to adoption. At June 30, 2016 and December 31, 2015, the Company had approximately \$0.6 million and \$0.7 million, respectively, of debt issuance costs that met the criteria of this amendment and are now presented as a reduction to Borrowings in the Unaudited Condensed Consolidated Statements of Financial Condition.

In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting. The ASU is intended to simplify several aspects of the accounting for share-based payment transactions, including income tax consequences, classification on the statement of cash flows, and accounting for the forfeiture of share-based awards. The updated guidance is effective for reporting periods beginning after December 15, 2016. Early adoption is permitted in any interim period; if early adoption is elected, the entity must adopt all of the amendments in the same

reporting period and reflect any adjustments as of the beginning of the fiscal year. The Company adopted the guidance as of January 1, 2016. As part of the guidance, all excess tax benefits and tax deficiencies (including tax benefits of dividends on share-based payment awards) are now recognized as income tax expense or benefit in the income statement. Previously, excess tax benefits were recognized in additional paid-in-capital. The amendment also requires excess tax benefits to be classified along with other income tax cash flows as an operating activity. The amendments related to the recognition of excess tax benefits and presentation of excess tax benefits in the statement of cash flows are applied prospectively as of January 1, 2016.

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ASU 2016-09 also allows entities to elect as an accounting policy either to continue to estimate the total number of awards for which the requisite service period will not be rendered (as previously required) or to account for forfeitures when they occur. The Company has elected to account for forfeitures when they occur, since that approach is expected to better reflect periodic compensation costs. The change in accounting for forfeitures is applied using a modified retrospective transition method by means of a cumulative-effect adjustment to equity. As of January 1, 2016, retained earnings decreased by \$0.4 million and additional paid-in-capital increased by \$0.4 million to reflect the change in accounting principle.

Accounting standards not yet adopted

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 new guidance will be effective on January 1, 2018 with early adoption permitted as of January 1, 2017. The Company is currently evaluating its transition method and the potential impact on its consolidated financial statements.

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. ASU 2016-01 will be effective on January 1, 2018 and will result in a cumulative-effect adjustment to the Company's Consolidated Statements of Financial Condition upon adoption. After adoption, the Company's unrealized gains (losses) on available-for-sale investment securities will be recognized through net income, which will be a change from the current treatment of recognition in other comprehensive income (loss).

In February 2016, the FASB issued ASU 2016-02, Leases, which introduces a lessee model that brings most leases on the balance sheet. The new guidance will be effective on January 1, 2019 and will require a modified retrospective approach to adoption. Early adoption is permitted. The Company is currently evaluating the impact of adoption on its consolidated financial statements.

#### Note 3. Investment Securities

The disclosures below include details of Artisan's investments.

	Cost	Unrealized Gains	Unrealized Losses	Fair Value
June 30, 2016				
Mutual funds	\$10,055	\$ 690	\$ (266 )	\$ 10,479
December 31, 2015				
Mutual funds	\$10,069	\$ 832	\$ (611 )	\$ 10,290

Artisan's investments in mutual funds consist of investments in shares of Artisan Funds and Artisan Global Funds and are considered to be available-for-sale securities. As a result, unrealized gains (losses) are recorded to other comprehensive income (loss).

As of June 30, 2016 and December 31, 2015, the total fair value of investments in an unrealized loss position was \$6.8 million and \$4.4 million, respectively. The \$266 thousand unrealized losses on available-for-sale securities are considered temporary, based on the severity and duration of the unrealized losses. No impairment losses were recorded on these available-for-sale securities.

#### 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.

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).





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The following provides the hierarchy of inputs used to derive fair value of Artisan's assets and liabilities that are financial instruments as of June 30, 2016 and December 31, 2015:

## Assets and Liabilities at Fair Value

	Total	Level 1	Level 2	Level 3
June 30, 2016				
Assets				
Cash equivalents	\$ 114,061	\$ 114,061	\$ —	—
Mutual funds	10,479	10,479	—	—

## December 31, 2015

Assets				
Cash equivalents	\$ 49,005	\$ 49,005	\$ —	—
Mutual funds	10,290	10,290	—	—

Fair values determined based on Level 1 inputs utilize quoted market prices for identical assets. Level 1 assets generally consist of money market funds, marketable open-end mutual funds and UCITS funds. There were no Level 2 or Level 3 assets or liabilities recorded at fair value as of June 30, 2016 and December 31, 2015.

Artisan's policy is to recognize transfers in and transfers out of the valuation levels as of the beginning of the reporting period. There were no transfers between Level 1, Level 2 or Level 3 securities during the six months ended June 30, 2016 and 2015.

## Note 5. Borrowings

Artisan's borrowings consist of the following as of June 30, 2016 and December 31, 2015:

	Maturity	Outstanding Balance	Interest Rate Per Annum
Revolving credit agreement	August 2017	\$ —	NA
Senior notes			
Series A	August 2017	60,000	4.98 %
Series B	August 2019	50,000	5.32 %
Series C	August 2022	90,000	5.82 %
Total borrowings		\$ 200,000	

The fair value of borrowings was approximately \$205.2 million as of June 30, 2016. Fair value was determined based on future cash flows, discounted to present value using current market interest rates. The inputs are categorized as Level 2 in the fair value hierarchy, as defined in Note 4, "Fair Value Measurements".

Interest expense incurred on the unsecured notes and revolving credit agreement was \$2.7 million for the three months ended June 30, 2016 and 2015, and \$5.5 million for the six months ended June 30, 2016 and 2015.

As of June 30, 2016, the aggregate maturities of debt obligations, based on their contractual terms, are as follows:

2016	\$—
2017	60,000
2018	—
2019	50,000
2020	—
Thereafter	90,000
	\$ 200,000

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## Note 6. Noncontrolling interest - Holdings

Holdings is the predecessor of APAM for accounting purposes, and its consolidated financial statements are Artisan's historical financial statements for periods prior to March 12, 2013, the date on which APAM became the general partner ("GP") of Holdings. As of June 30, 2016, APAM held approximately 56% of the equity ownership interests in Holdings.

Net income attributable to noncontrolling interests - Artisan Partners Holdings in the Unaudited Consolidated Statements of Operations represents the portion of earnings attributable to the equity ownership interests in Holdings held by the limited partners of 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 GP unit to APAM for each share of Class A common stock APAM issues. During the six months ended June 30, 2016, APAM's equity ownership interest in Holdings increased as a result of the following transactions:

	Holdings GP Units	Limited Partnership Units	Total	APAM Ownership %	
As of December 31, 2015	39,432,605	33,976,323	73,408,928	54	%
Issuance of APAM Restricted Shares <sup>(1)</sup>	1,082,035	—	1,082,035	—	%
Holdings Common Unit Exchanges	1,526,644	(1,526,644)	—	2	%
Restricted Share Award Net Share Settlement <sup>(1)</sup>	(12,862)	—	(12,862)	—	%
Forfeitures of Holdings GP Units from Employee Terminations <sup>(1)</sup>	(2,710)	—	(2,710)	—	%
As of June 30, 2016	42,025,712	32,449,679	74,475,391	56	%

<sup>(1)</sup> The impact of the transaction on APAM's ownership percentage was less than 1%.

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

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

	For the Six Months Ended June 30,	
	2016	2015
Additional paid-in capital	\$(2,168)	\$(5,235)
Noncontrolling interest - Artisan Partners Holdings	2,209	5,171
Accumulated other comprehensive income (loss)	(42)	29
Deferred tax assets	1	35
Net balance sheet impact	—	—

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 \$2.5 million for the six months ended June 30, 2016 and \$6.5 million for the six months ended June 30, 2015.

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## Note 7. Stockholders' Equity

## APAM - Stockholders' Equity

As of June 30, 2016 and December 31, 2015, APAM had the following authorized and outstanding equity:

	Authorized	Outstanding		Voting Rights <sup>(1)</sup>	Economic Rights
		June 30, 2016	December 31, 2015		
Common shares					
Class A, par value \$0.01 per share	500,000,000	42,025,712	39,432,605	1 vote per share	Proportionate
Class B, par value \$0.01 per share	200,000,000	16,820,578	18,327,222	5 votes per share	None
Class C, par value \$0.01 per share	400,000,000	15,629,101	15,649,101	1 vote per share	None

<sup>(1)</sup> 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 June 30, 2016, Artisan's employees held 3,795,914 restricted shares of Class A common stock subject to the agreement and all 16,820,578 outstanding shares of Class B common stock. APAM is dependent on cash generated by Holdings to fund any dividends. Generally, Holdings will make distributions to all of its partners, including APAM, based on the proportionate ownership each holds in Holdings. APAM will fund dividends to its stockholders from its proportionate share of those distributions after provision for its taxes and other obligations. APAM declared and paid the following dividends per share during the three and six months ended June 30, 2016 and 2015:

Type of Dividend	Class of Stock	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
		2016	2015	2016	2015
Quarterly	Class A Common	\$0.60	\$0.60	\$1.20	\$1.20
Special Annual	Class A Common	\$—	\$—	\$0.40	\$0.95

APAM issued (canceled) the following shares during the six months ended June 30, 2016:

	Total Stock	Class A	Class B	Class C
		Common Stock <sup>(1)</sup>	Common Stock	Common Stock
Balance at December 31, 2015	73,408,928	39,432,605	18,327,222	15,649,101
Holdings Common Unit Exchanges	—	1,526,644	(1,506,644)	(20,000)
Restricted Share Award Grants	1,082,035	1,082,035	—	—
Restricted Share Award Net Share Settlement	(12,862)	(12,862)	—	—
Employee/Partner Terminations	(2,710)	(2,710)	—	—
Balance at June 30, 2016	74,475,391	42,025,712	16,820,578	15,629,101

<sup>(1)</sup> There were 178,401 and 122,990 restricted stock units outstanding at June 30, 2016 and December 31, 2015, 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 unvested Class B common units are forfeited. Generally, the employee-partner's vested Class B common units are exchanged for Class E common units; the employee-partner's shares of Class B common stock are canceled; and 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.

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## Artisan Partners Holdings - Partners' Equity

Holdings makes distributions of its net income to the holders of its partnership units for income taxes as required under the terms of the partnership agreement and also makes additional distributions under the terms of the partnership agreement. The distributions are recorded in the financial statements on the declaration date, or on the payment date in lieu of a declaration date. Holdings' partnership distributions for the three and six months ended June 30, 2016 and 2015, were as follows:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2016	2015	2016	2015
Holdings Partnership Distributions to Limited Partners	\$43,095	\$54,552	\$62,424	\$96,657
Holdings Partnership Distributions to APAM	50,809	54,642	73,241	91,907
Total Holdings Partnership Distributions	\$93,904	\$109,194	\$135,665	\$188,564

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

## Note 8. Compensation and Benefits

Total compensation and benefits consists of the following:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2016	2015	2016	2015
Salaries, incentive compensation and benefits <sup>(1)</sup>	\$77,212	\$84,673	\$154,308	\$174,577
Restricted share-based award compensation expense	10,799	9,035	21,183	17,558
Total salaries, incentive compensation and benefits	88,011	93,708	175,491	192,135
Pre-offering related compensation - share-based awards	7,136	10,650	14,955	21,064
Total compensation and benefits	\$95,147	\$104,358	\$190,446	\$213,199

<sup>(1)</sup> Excluding restricted share-based award compensation expense

## Incentive compensation

Cash incentive compensation paid to members of Artisan's portfolio management 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 has historically been paid in the fourth quarter of the year. The cash incentive compensation earned by executive officers for the year ended December 31, 2015, was paid in the three months ended March 31, 2016.

## Restricted share-based awards

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

Unvested awards are subject to forfeiture upon termination of employment. Grantees receiving the awards are entitled to dividends on unvested and vested shares and units. As of June 30, 2016, 9,234,275 shares of Class A common stock were reserved and available for issuance under the Plan.

During the six months ended June 30, 2016, Artisan granted 1,082,035 restricted stock awards and 20,625 restricted stock units of Class A common stock to employees of the Company. Total compensation expense associated with the 2016 grants is expected to be approximately \$33.6 million. Compensation expense related to the restricted share-based

awards is recognized based on the estimated grant date fair value on a straight-line basis over the requisite service period of the award. The initial requisite service period is generally five years for restricted share-based awards.

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As of January 1, 2016, the Company's accounting policy is to record the impact of forfeitures when they occur. During the six months ended June 30, 2016, compensation expense was reversed for 2,710 forfeited restricted stock awards. The following table summarizes the restricted share-based award activity for the six months ended June 30, 2016:

	Weighted-Average Grant Date Fair Value	Number of Awards
Unvested at January 1, 2016	\$ 51.58	2,861,984
Granted	\$ 30.51	1,102,660
Forfeited	\$ 47.44	(2,710 )
Vested	\$ 48.17	(65,395 )
Unvested at June 30, 2016	\$ 45.68	3,896,539

Compensation expense recognized related to the restricted share-based awards was \$10.8 million and \$9.1 million for the three months ended June 30, 2016 and 2015, respectively, and \$21.2 million and \$17.6 million for the six months ended June 30, 2016 and 2015, respectively. The unrecognized compensation expense for the unvested awards as of June 30, 2016 was \$134.3 million with a weighted average recognition period of 3.5 years remaining. The initial requisite service period and remaining weighted average recognition period for all types of restricted share-based awards are substantially equivalent.

During the six months ended June 30, 2016, the Company withheld a total of 12,862 restricted shares as a result of net share settlements to satisfy employee tax withholding obligations. The Company paid \$0.3 million in employee tax withholding obligations related to employee share transactions. 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

## Historical Class B share-based awards

Holdings historically granted Class B share-based awards to certain employees. These awards vested over a period of five years. Prior to the IPO, all vested Class B awards were subject to mandatory redemption on termination of employment for any reason and were reflected as liabilities measured at fair value; unvested Class B awards were forfeited on termination of employment.

The vested Class B liability awards of a terminated employee were historically redeemed in cash in annual installments, generally over the five years following termination of employment. The change in value of Class B liability awards and distributions to Class B limited partners were treated as compensation expense.

## Historical redemption of Class B awards

Holdings historically redeemed the Class B awards of partners whose employment was terminated. The redemption value of the awards was determined in accordance with the terms of the grant agreement pursuant to which the award was granted. The remaining redemption payment liability for Class B awards of partners whose services to Holdings terminated prior to the IPO was \$5.0 million and \$5.6 million as of June 30, 2016 and December 31, 2015, respectively. Payments of \$0.6 million and \$4.2 million were made during the six months ended June 30, 2016 and 2015, respectively.

## Modification of Class B awards

As a part of the IPO Reorganization, the Class B grant agreements were amended to eliminate the cash redemption feature. The amendment was considered a modification under ASC 718 and the Class B awards have been classified as equity awards since such modification. Compensation expense is recorded for unvested Class B awards on a straight-line basis over the remaining vesting period.

The following table summarizes the activity related to unvested Class B awards for the six months ended June 30, 2016:

	Weighted-Average Grant Date Fair Value	Number of Class B Awards
Unvested Class B awards at January 1, 2016	\$ 30.00	2,348,334
Granted	—	—



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Forfeited	—	—
Vested	\$ 30.00	(445,331 )
Unvested at June 30, 2016	\$ 30.00	1,903,003

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Compensation expense recognized related to the unvested Class B awards was \$7.2 million and \$10.7 million for the three months ended June 30, 2016 and 2015, respectively, and \$15.0 million and \$21.1 million for the six months ended June 30, 2016 and 2015, respectively. The unrecognized compensation expense for the unvested Class B awards as of June 30, 2016 was \$28.5 million with a weighted average recognition period of 1.0 years remaining.

**Note 9. Income Taxes and Related Payments**

APAM is subject to U.S. federal, state and local income taxation on APAM's allocable portion of Holdings' income. APAM's effective income tax rate was lower than the U.S. federal statutory rate of 35% primarily due to a rate benefit attributable to the fact that, for the three and six months ended June 30, 2016, approximately 46% of Artisan Partners Holdings' taxable earnings were attributable to other partners and not subject to corporate-level taxes. This favorable impact is partially offset by the impact of certain permanent items, primarily attributable to pre-IPO share-based compensation expenses, that are not deductible for tax purposes. These factors are expected to continue to impact the effective tax rate for future years, although as APAM's equity ownership in Holdings increases, the effective tax rate will likewise increase as more income will be subject to corporate-level taxes. The effective tax rate will also be affected by the discrete tax impact of future dividends on unvested share-based awards and future vesting of restricted share-based awards based on fluctuations in the trading price of APAM's Class A common stock between the grant date and vesting date.

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

	For the Three Months Ended June 30, 2016		For the Six Months Ended June 30, 2015	
Current:				
Federal	\$3,238	\$7,074	\$5,908	\$12,114
State and local	506	1,021	1,050	1,541
Foreign	161	65	346	163
Total	3,905	8,160	7,304	13,818
Deferred:				
Federal	8,257	7,886	15,936	14,629
State and local	472	451	911	(6,868 )
Total	8,729	8,337	16,847	7,761
Income tax expense	\$12,634	\$16,497	\$24,151	\$21,579

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

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

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

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

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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. Artisan expects to make one or more payments under the TRAs, to the extent they are required, prior to or within 125 days after APAM's U.S. federal income tax return is filed for each fiscal year. Interest on the TRA payments will accrue at a rate equal to one-year LIBOR plus 100 basis points from the due date (without extension) of such tax return until such payments are made.

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

Transactions during the six months ended June 30, 2016 resulted in the following impact to deferred tax assets and amounts payable under the TRAs:

	Amounts payable under tax receivable agreements	Deferred Tax Asset - Amortizable basis
December 31, 2015	\$ 589,101	\$ 660,254
2016 Exchanges	23,593	27,756
Amortization	—	(17,656 )
Payments under TRA (20,953 )	—	—
June 30, 2016	\$ 591,741	\$ 670,354

Net deferred tax assets comprise the following:

	As of June 30, 2016	As of December 31, 2015
Deferred tax assets:		
Amortizable basis <sup>(1)</sup>	\$ 670,354	\$ 660,254
Other <sup>(2)</sup>	21,565	18,283
Total deferred tax assets	691,919	678,537
Less: valuation allowance <sup>(3)</sup>	—	—
Net deferred tax assets	\$ 691,919	\$ 678,537

<sup>(1)</sup> Represents the unamortized step-up of tax basis and other tax attributes from the merger described above, the purchase of common and preferred units by APAM, and the exchange of common and preferred units for Class A common shares of APAM.

<sup>(2)</sup> Represents the net deferred tax assets associated with the merger described above and other miscellaneous deferred tax assets.

<sup>(3)</sup> 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 June 30, 2016 and December 31, 2015.

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In the normal course of business, Artisan is subject to examination by federal and certain state, local and foreign tax regulators. As of June 30, 2016, U.S. federal income tax returns for the years 2013 through 2015 are open and therefore subject to examination. State and local tax returns are generally subject to examination from 2012 to 2014. Foreign tax returns are generally subject to examination from 2012 to 2015.

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## Note 10. Accumulated Other Comprehensive Income (Loss)

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

	As of June 30, 2016	As of December 31, 2015
Unrealized gain (loss) on investments, net of tax	\$148	\$ 77
Foreign currency translation gain (loss)	(1,157 )	(452 )
Accumulated other comprehensive income (loss)	\$(1,009)	\$(375 )

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 11. 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 the employees. Income available to Class A common stockholders is computed by reducing net income attributable to APAM by earnings (distributed and undistributed) allocated to participating securities, according to their respective rights to participate in those earnings. Unvested share-based awards are participating securities because the awards include non-forfeitable dividend rights during the vesting period. Class B and Class C common shares do not share in profits of APAM and therefore are not reflected in the calculations.

The computation of basic and diluted earnings per share under the two-class method for the three and six months ended June 30, 2016 and 2015 were as follows:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2016	2015	2016	2015
Basic and Diluted Earnings Per Share				
Numerator:				
Net income attributable to APAM	\$18,384	\$23,736	\$34,645	\$43,250
Less: Allocation to participating securities	4,121	5,638	6,878	10,726
Net income available to common stockholders	\$14,263	\$18,098	\$27,767	\$32,524
Denominator:				
Weighted average shares outstanding	38,023,585	35,992,493	37,497,268	34,322,266
Earnings per share	\$0.38	\$0.50	\$0.74	\$0.95

Allocation to participating securities generally represents dividends paid to holders of unvested restricted share-based awards. There were no dilutive securities outstanding during the six months ended June 30, 2015 and 2016. The Holdings limited partnership units are anti-dilutive primarily due to the impact of public company expenses and unrecognized share-based compensation expense. Unvested share-based awards are also anti-dilutive because they are considered participating securities.

The following table summarizes the weighted-average shares outstanding that are excluded from the calculation of diluted earnings per share because their effect would have been anti-dilutive:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2016	2015	2016	2015
Anti-Dilutive Weighted Average Shares Outstanding				
Holdings limited partnership units	32,725,890	34,217,676	33,233,419	35,904,151

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Unvested restricted share-based awards	3,904,554	3,330,863	3,638,178	3,162,097
Total	36,630,444	37,548,539	36,871,597	39,066,248

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## Note 12. 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 13. Related Party Transactions

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

## Affiliate transactions—Artisan Funds

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

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

	For the Three Months Ended June 30, 2016		For the Six Months Ended June 30, 2015	
Investment management fees:				
Artisan Funds	\$115,061	\$138,864	\$226,236	\$273,171
Fee waiver / expense reimbursement:				
Artisan Funds	\$222	\$51	\$356	\$51

## Affiliate transactions—Artisan Global Funds

Artisan has an agreement to serve as the investment adviser 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. Accounts receivable included \$1.2 million and \$1.3 million due from Artisan Global Funds as of June 30, 2016 and December 31, 2015, respectively.

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

	For the Three Months Ended June 30, 2016		For the Six Months Ended June 30, 2015	



Investment management fees:

Artisan Global Funds	\$3,667	\$3,845	\$7,292	\$7,569
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Fee waiver / expense reimbursement:

Artisan Global Funds	\$172	\$181	\$260	\$244
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Note 14. Subsequent Events

Distributions and dividends

On July 21, 2016, the board of directors of APAM declared a distribution by Artisan Partners Holdings of \$39.4 million to holders of Artisan Partners Holdings partnership units, including APAM. On the same date, the board declared a quarterly dividend of \$0.60 per share of Class A common stock. The APAM dividend is payable on August 31, 2016, to shareholders of record as of August 17, 2016.

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

#### Overview

We are an investment management firm focused on providing high-value added, active investment strategies to sophisticated clients globally. Our operations are conducted through Artisan Partners Holdings and its subsidiaries. We derive essentially all of our revenues from investment management fees. Nearly all our fees are based on a specified percentage of clients' average assets under our management. We operate our business in a single segment. We have seven autonomous investment teams that manage a broad range of U.S., non-U.S., and global investment strategies. Strategies are offered through multiple investment vehicles to accommodate a broad range of client mandates.

#### Assets Under Management

During the three and six months ended June 30, 2016, global equity markets were volatile and generated mixed returns. Our AUM was \$95.0 billion at June 30, 2016, a decrease of \$2.0 billion, or 2.1%, compared to \$97.0 billion at March 31, 2016, as a result of \$2.3 billion of net client cash outflows partially offset by \$0.3 billion in market appreciation and net transfers. Compared to June 30, 2015, AUM decreased \$14.2 billion, or 13.0%, due to \$7.2 billion of market depreciation and \$7.0 billion in net client cash outflows.

#### Business and Financial Highlights

- Year to date, the Value Equity strategy has returned over 14% gross of fees. The Mid-Cap Value, Emerging Markets, High Income and Developing World strategies have each returned in excess of 7.6% gross of fees.

At quarter-end, the 5-year average annual returns of 8 of our 11 investment strategies with 5-year track records exceeded the returns of the applicable benchmark. Our Global Opportunities and Global Equity strategies, both of which are open to new clients and investors and have realizable capacity, beat their benchmarks on a gross basis by over 450 and 500 basis points, respectively, over the 5-year period.

At quarter-end, the 10-year average annual returns of 7 of our 8 investment strategies with 10-year track records exceeded the returns of the applicable benchmark.

During the second quarter, we ceased managing assets in the U.S. Small-Cap Value strategy, and reorganized Artisan Small Cap Value Fund into Artisan Mid Cap Value Fund. This resulted in the transfer of approximately \$180 million of assets from Artisan Small Cap Value Fund to Artisan Mid Cap Value Fund, as well as net client cash outflows of \$518 million.

Firm-wide net outflows of \$2.3 billion during the second quarter were primarily driven by net outflows from the strategies managed by our U.S. Value team, which experienced a total of \$1.8 billion of net outflows during the quarter.

During the second quarter, our High Income strategy raised \$138 million in net client cash flows; our Developing World strategy raised \$129 million in net client cash flows; and our Global Opportunities strategy raised \$201 million in net client cash flows. All three strategies are open to new clients and investors. Our Global Value strategy, which we re-opened to investors in our pooled vehicles, raised \$200 million in net client cash flows.

Revenues were \$355.3 million for the six months ended June 30, 2016, a 14% decrease from revenues of \$415.1 million for the six months ended June 30, 2015.

Operating margin was 32.0% for the six months ended June 30, 2016 compared to 35.2% for the six months ended June 30, 2015. Adjusted operating margin was 36.2% for the six months ended June 30, 2016 compared to 40.3% for the six months ended June 30, 2015.

Net income attributable to APAM was \$34.6 million, or \$0.74 per basic and diluted share, for six months ended June 30, 2016 compared to \$43.3 million, or \$0.95 per basic and diluted share, for the six months ended June 30, 2015.

Adjusted net income per adjusted share was \$1.04 for the six months ended June 30, 2016 compared to \$1.39 for the six months ended June 30, 2015.

#### Organizational Structure

Organizational Structure

On March 12, 2013, Artisan Partners Asset Management Inc. (“APAM”) and the intermediary holding company through which APAM conducts its operations, Artisan Partners Holdings LP (“Holdings”), completed a series of transactions (“the IPO Reorganization”) to reorganize their capital structures in connection with the initial public offering (“IPO”) of APAM’s Class A common stock. The IPO Reorganization and IPO were completed on March 12, 2013. The IPO Reorganization was designed to create a capital structure that preserves our ability to conduct our business through Holdings, while permitting us to raise additional capital and provide access to liquidity through a public company. The IPO Reorganization is described in greater detail in our Annual Report on Form 10-K for the year ended December 31, 2015, filed with the SEC on February 25, 2016.

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Our employees and other limited partners of Holdings held approximately 44% of the equity interests in Holdings as of June 30, 2016. As a result, our post-IPO results reflect that significant noncontrolling interest.

2016 Unit Exchanges

During the six months ended June 30, 2016, certain limited partners of Holdings exchanged 1,526,644 common units (along with a corresponding number of shares of Class B or Class C common stock of APAM) for 1,526,644 shares of Class A common stock. In connection with the exchanges, APAM received 1,526,644 GP units of Holdings.

APAM's equity ownership interest in Holdings increased from 54% at December 31, 2015 to 56% at June 30, 2016, as a result of these exchanges and other equity transactions during the period.

Tax Impact of IPO Reorganization

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

The second TRA generally provides for the payment by APAM to current or former limited partners of Holdings of 85% of the applicable cash savings, if any, of U.S. federal, state and local income taxes that APAM actually realizes (or is deemed to realize in certain circumstances) as a result of (i) certain tax attributes of their partnership units sold to 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. Under both agreements, APAM generally will retain the benefit of the remaining 15% of the applicable tax savings.

Transactions during the six months ended June 30, 2016, resulted in the following impact to deferred tax assets and amounts payable under the TRAs:

	Amounts payable under tax receivable agreements (unaudited; in millions)	Deferred Tax Asset - Amortizable basis
December 31, 2015	\$589.1	\$ 660.3
2016 Exchanges	23.6	27.8
Amortization	—	(17.7 )
Payments under TRA	(21.0 )	—
June 30, 2016	\$591.7	\$ 670.4

Financial OverviewEconomic Environment

Global equity market conditions can materially affect our financial performance. During the six months ended June 30, 2016, our AUM decreased 4.9%, 1.2% of which was due to market depreciation. The following table presents the total returns of relevant market indices for the three and six months ended June 30, 2016 and 2015:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2016	2015	2016	2015
S&P 500 total returns	2.5 %	0.3 %	3.8 %	1.2 %
MSCI All World total returns	1.0 %	0.4 %	1.2 %	2.7 %

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MSCI EAFE total returns (1.5)% 0.6 % (4.4)% 5.5 %  
Russell Midcap® total returns 3.2 % (1.5)% 5.5 % 2.4%

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## Key Performance Indicators

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2016	2015	2016	2015
	(unaudited; dollars in millions)			
Assets under management at period end	\$94,959	\$109,174	\$94,959	\$109,174
Average assets under management <sup>(1)</sup>	\$96,623	\$111,423	\$94,747	\$109,932
Net client cash flows	\$(2,320 )	\$(305 )	\$(3,659 )	\$(2,532 )
Total revenues	\$180.8	\$211.5	\$355.3	\$415.1
Weighted average fee <sup>(2)</sup>	75	bps 76	bps 75	bps 76
Operating margin	32.6	% 37.0	% 32.0	% 35.2
Adjusted operating margin <sup>(3)</sup>	36.6	% 42.1	% 36.2	% 40.3

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

<sup>(2)</sup> We compute our weighted average fee by dividing annualized investment management fees by average assets under management for the applicable period.

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

Because we earn investment management fees based primarily on the value of the assets we manage across a reporting period, we believe that average assets under management for a period is a better metric for understanding changes in our revenues than period end assets under management.

The weighted average fee represents annualized investment management fees as a percentage of average assets under management for the applicable period. We have historically been disciplined about maintaining our rates of fees. Over time, industry-wide fee pressure could cause us to reduce our fees.

## Assets Under Management and Investment Performance

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

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

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

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The table below sets forth changes in our total AUM:

	For the Three Months Ended June 30,		Period-to-Period	
	2016	2015	\$	%
	(unaudited; in millions)			
Beginning assets under management	\$97,032	\$108,723	\$(11,691)	(10.8)%
Gross client cash inflows	3,711	5,097	(1,386)	(27.2)%
Gross client cash outflows	(6,031)	(5,402)	(629)	(11.6)%
Net client cash flows	(2,320)	(305)	(2,015)	(660.7)%
Market appreciation (depreciation) <sup>(1)</sup>	231	756	(525)	(69.4)%
Net transfers <sup>(2)</sup>	16	—	16	100.0%
Ending assets under management	\$94,959	\$109,174	\$(14,215)	(13.0)%
Average assets under management	\$96,623	\$111,423	\$(14,800)	(13.3)%

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

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

	For the Six Months Ended June 30,		Period-to-Period	
	2016	2015	\$	%
	(unaudited; in millions)			
Beginning assets under management	\$99,848	\$107,915	\$(8,067)	(7.5)%
Gross client cash inflows	8,364	9,520	(1,156)	(12.1)%
Gross client cash outflows	(12,023)	(12,052)	29	0.2%
Net client cash flows	(3,659)	(2,532)	(1,127)	(44.5)%
Market appreciation (depreciation) <sup>(1)</sup>	(1,230)	3,791	(5,021)	(132.4)%
Net transfers <sup>(2)</sup>	—	—	—	—%
Ending assets under management	\$94,959	\$109,174	\$(14,215)	(13.0)%
Average assets under management	\$94,747	\$109,932	\$(15,185)	(13.8)%

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

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

We believe that growth in AUM in an investment strategy requires the availability of attractive investment opportunities relative to the amount of AUM in the strategy at a time when the strategy has a competitive performance track record and there is stable or growing client demand for the strategy or asset class. When we believe that each of these factors is present with respect to an investment strategy, we say we have “realizable capacity” in that strategy. We discuss realizable capacity in general, rather than discussing the capacity of our strategies in precise dollar amounts, because capacity is affected by a number of factors, evolves over time, and is subject to change. We are confident that we have sufficient realizable capacity to continue to thoughtfully grow. In particular, we believe that we currently have realizable capacity in our Global Opportunities and Global Equity strategies, where we believe we are



well-positioned to take advantage of client and investor demand. The Global Opportunities strategy had \$201 million and \$352 million of net client cash inflows during the three and six months ended June 30, 2016, respectively, while the Global Equity strategy's net flows were slightly negative. If these strategies continue to perform well relative to their benchmarks and global strategies remain in demand, we expect that they will gather assets.

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Across the firm, we experienced total net outflows of \$2.3 billion and \$3.7 billion during the three and six months ended June 30, 2016, respectively. The strategies managed by our U.S. Value team experienced total net outflows of \$1.8 billion and \$3.0 billion during the three and six months ended June 30, 2016, respectively, as a result of extended underperformance and our cessation of the U.S. Small-Cap Value strategy in the second quarter of 2016. During the second quarter, we ceased managing assets in the U.S. Small-Cap Value strategy and reorganized Artisan Small Cap Value Fund into Artisan Mid Cap Value Fund. This reorganization resulted in net outflows of approximately \$518 million and the transfer of approximately \$180 million of assets from Artisan Small Cap Value Fund to Artisan Mid Cap Value Fund. If client trends continue, we expect the team's strategies will continue to experience net outflows. For the three months ended June 30, 2016, the remainder of our net outflows were primarily the result of reduced gross inflows across several of our strategies, including our Non-U.S. Growth strategy and our U.S. Mid-Cap Growth strategy. Firm-wide gross inflows of \$3.7 billion for the three months ended June 30, 2016, were \$942 million and \$1.4 billion less than for the three months ended March 31, 2016, and June 30, 2015, respectively. Our Non-U.S. Growth strategy had net outflows of \$561 million and \$1.2 billion, respectively, for the three and six months ended June 30, 2016. As previously announced, we closed the strategy to most new retail and intermediary investors in February 2016, and we will further close the strategy to most new institutional investors and employee benefit plans in October 2016. The U.S. Mid-Cap Growth strategy had net outflows of \$607 million and \$748 million, respectively, for the three and six months ended June 30, 2016.

Our High Income strategy, which we launched in March 2014, generated net inflows of \$138 million and \$472 million during the three and six months ended June 30, 2016, respectively. We also continued to see strong interest in our Developing World strategy, which launched at the end of June 2015 and has generated a total of \$680 million in net inflows since that time. Our Global Value strategy, which we re-opened to investors through our pooled vehicles in the fourth quarter of 2015, generated \$288 million of net inflows during the six months ended June 30, 2016, after several quarters of net outflows while the strategy was closed to most new investors.

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

In addition to our Non-U.S. Growth and Global Value strategies which are partially closed as described above, as of the date of this filing, our Non-U.S. Small-Cap Growth, Non-U.S. Value, U.S. Mid-Cap Growth, U.S. Mid-Cap Value and U.S. Small-Cap Growth strategies are closed to most new investors and client relationships.

When we close a strategy, we typically continue to allow additional investments in the strategy by existing clients and certain related entities, which means that during a given period we could have net client cash inflows even in a closed strategy. For example, during the three and six months ended June 30, 2016, our Non-U.S. Value strategy, which is closed to most new investors and client relationships, had \$214 million and \$457 million in net client cash inflows. However, when a strategy is closed or its growth is restricted we expect there to be periods of net client cash outflows. We measure investment performance based upon the results of our "composites", which represent the aggregate performance of all discretionary client accounts, including mutual funds, invested in the same strategy except those accounts with respect to which we believe client-imposed investment restrictions may have a material impact on portfolio construction and those accounts managed in a currency other than U.S. dollars.

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The table below sets forth the total AUM for each of our investment teams and strategies as of June 30, 2016, the inception date for each investment composite, and the average annual total returns for each composite and its respective broad-based benchmark (and style benchmark, if applicable) over a multi-horizon time period as of June 30, 2016. Returns for periods of less than one year are not annualized.

Investment Team and Strategy	Inception Date	Strategy AUM (in \$MM)	Average Annual Total Returns (%)				Inception	Average Annual Value-Added <sup>(1)</sup> Since Inception (bps)
			1 YR	3 YR	5 YR	10 YR		
Global Equity Team								
Non-U.S. Growth Strategy	1/1/1996	\$27,150	(11.15)%	3.35%	5.62%	4.81%	10.05%	597
MSCI EAFE Index			(10.16)%	2.06%	1.68%	1.58%	4.08%	
Non-U.S. Small-Cap Growth Strategy	1/1/2002	\$1,123	(8.33)%	3.45%	6.13%	7.28%	13.30%	384
MSCI EAFE Small Cap Index			(3.67)%	7.25%	4.84%	3.57%	9.46%	
Global Equity Strategy	4/1/2010	\$958	(6.81)%	6.56%	10.47%	N/A	11.27%	473
MSCI All Country World Index			(3.73)%	6.03%	5.37%	N/A	6.54%	
Global Small-Cap Growth Strategy	7/1/2013	\$91	(16.89)%	0.80%	N/A	N/A	0.80%	(599)
MSCI All Country World Small Cap Index			(4.72)%	6.79%	N/A	N/A	6.79%	
U.S. Value Team								
U.S. Mid-Cap Value Strategy <sup>(3)</sup>	4/1/1999	\$6,780	(0.22)%	6.35%	9.19%	8.98%	13.16%	421
Russell Midcap <sup>®</sup> Index			0.56%	10.79%	10.89%	8.06%	8.95%	
Russell Midcap <sup>®</sup> Value Index			3.25%	10.99%	11.69%	7.78%	9.71%	
Value Equity Strategy	7/1/2005	\$1,500	3.66%	8.15%	9.73%	7.27%	7.49%	(15)
Russell 1000 <sup>®</sup> Index			2.93%	11.47%	11.87%	7.50%	7.64%	
Russell 1000 <sup>®</sup> Value Index			2.86%	9.86%	11.34%	6.12%	6.65%	
Growth Team								
U.S. Mid-Cap Growth Strategy	4/1/1997	\$14,004	(4.25)%	10.20%	10.36%	10.60%	15.02%	502
Russell Midcap <sup>®</sup> Index			0.56%	10.79%	10.89%	8.06%	9.99%	
Russell Midcap <sup>®</sup> Growth Index			(2.14)%	10.51%	9.97%	8.11%	8.48%	
U.S. Small-Cap Growth Strategy	4/1/1995	\$2,217	(5.88)%	9.14%	10.82%	8.15%	9.83%	115
Russell 2000 <sup>®</sup> Index			(6.73)%	7.08%	8.34%	6.19%	8.69%	
Russell 2000 <sup>®</sup> Growth Index			(10.75)%	7.73%	8.50%	7.14%	6.92%	
Global Opportunities Strategy	2/1/2007	\$7,939	(0.41)%	10.20%	10.30%	N/A	8.98%	600
MSCI All Country World Index			(3.73)%	6.03%	5.37%	N/A	2.98%	
Global Value Team								
Non-U.S. Value Strategy	7/1/2002	\$16,488	(5.86)%	6.21%	7.67%	7.63%	12.11%	673
MSCI EAFE Index			(10.16)%	2.06%	1.68%	1.58%	5.38%	
Global Value Strategy	7/1/2007	\$14,210	(2.25)%	7.33%	10.52%	N/A	7.31%	516
MSCI All Country World Index			(3.73)%	6.03%	5.37%	N/A	2.16%	
Emerging Markets Team								
Emerging Markets Strategy	7/1/2006	\$213	(3.38)%	1.68%	(3.44)%	3.69%	3.69%	15
MSCI Emerging Markets Index			(12.05)%	(1.56)%	(3.78)%	3.54%	3.54%	
Credit Team								
High Income Strategy <sup>(2)</sup>	4/1/2014	\$1,563	4.95%	N/A	N/A	N/A	5.41%	376
BofA Merrill Lynch High Yield Master II Index			1.71%	N/A	N/A	N/A	1.65%	
Developing World Team								

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Developing World Strategy	7/1/2015	\$723	(4.06)%	N/A	N/A	N/A	(4.06)%	800
MSCI Emerging Markets Index			(12.05)%	N/A	N/A	N/A	(12.05)%	
Total Assets Under Management		\$94,959						

(1) Value-added is the amount in basis points by which the average annual gross composite return of each of our strategies has outperformed the broad-based market index most commonly used by our clients to compare the performance of the relevant strategy. Value-added for periods less than one year is not annualized.

(2) The Artisan High Income strategy may hold loans and other security types, including securities with lower credit ratings, that may not be included in the BofA Merrill Lynch High Yield Master II Index. At times, this causes material differences in relative performance.

(3) U.S. Mid-Cap Value assets under management include approximately \$180 million of assets transferred into the strategy as part of the Artisan Small Cap Value Fund reorganization, which occurred on May 23, 2016. Upon completion of the reorganization, Artisan Partners ceased to manage assets in the U.S. Small-Cap Value strategy.

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The tables below set forth changes in our AUM by investment team:

Three Months Ended	By Investment Team							Total
	Global Equity	U.S. Value	Growth	Global Value	Emerging Markets	Credit	Developing World	
June 30, 2016	(unaudited; in millions)							
Beginning assets under management	\$30,422	\$9,776	\$23,877	\$30,770	\$ 271	\$1,343	\$ 573	\$97,032
Gross client cash inflows	884	573	726	1,153	2	231	142	3,711
Gross client cash outflows	(1,549)	(2,386)	(1,183)	(739)	(68)	(93)	(13)	(6,031)
Net client cash flows	(665)	(1,813)	(457)	414	(66)	138	129	(2,320)
Market appreciation (depreciation)	(435)	317	740	(502)	8	82	21	231
Net transfers <sup>(1)</sup>	—	—	—	16	—	—	—	16
Ending assets under management	\$29,322	\$8,280	\$24,160	\$30,698	\$ 213	\$1,563	\$ 723	\$94,959
Average assets under management	\$30,155	\$8,895	\$24,122	\$31,097	\$ 215	\$1,472	\$ 667	\$96,623
June 30, 2015								
Beginning assets under management	\$33,601	\$16,243	\$25,064	\$32,512	\$ 629	\$674	—	\$108,723
Gross client cash inflows	1,932	865	1,459	731	1	99	10	5,097
Gross client cash outflows	(889)	(1,992)	(1,566)	(890)	(11)	(54)	—	(5,402)
Net client cash flows	1,043	(1,127)	(107)	(159)	(10)	45	10	(305)
Market appreciation (depreciation)	(19)	(227)	749	242	4	7	—	756
Net transfers <sup>(1)</sup>	—	—	—	—	—	—	—	—
Ending assets under management	\$34,625	\$14,889	\$25,706	\$32,595	\$ 623	\$726	10	\$109,174
Average assets under management <sup>(2)</sup>	\$34,995	\$15,951	\$25,824	\$33,295	\$ 659	\$699	10	\$111,423

<sup>(1)</sup> Net transfers represent certain amounts that we have identified as having been transferred out of one investment strategy or investment vehicle and into another strategy or vehicle. <sup>(2)</sup> For the Developing World team, average assets under management is for the period between June 29, 2015, when the team's strategy began investment operations, and June 30, 2015.

Six Months Ended	By Investment Team							Total
	Global Equity	U.S. Value	Growth	Global Value	Emerging Markets	Credit	Developing World	
June 30, 2016	(unaudited; in millions)							
Beginning assets under management	\$32,434	\$10,369	\$24,929	\$30,182	\$ 571	\$989	\$ 374	\$99,848
Gross client cash inflows	2,111	927	1,955	2,363	3	678	327	8,364
Gross client cash outflows	(3,435)	(3,902)	(2,437)	(1,618)	(397)	(206)	(28)	(12,023)
Net client cash flows	(1,324)	(2,975)	(482)	745	(394)	472	299	(3,659)
Market appreciation (depreciation)	(1,788)	886	(287)	(229)	36	102	50	(1,230)
Net transfers <sup>(1)</sup>	—	—	—	—	—	—	—	—
Ending assets under management	\$29,322	\$8,280	\$24,160	\$30,698	\$ 213	\$1,563	\$ 723	\$94,959
Average assets under management	\$30,014	\$9,193	\$23,347	\$30,004	\$ 357	\$1,297	\$ 535	\$94,747
June 30, 2015								
Beginning assets under management	\$31,452	\$18,112	\$24,499	\$32,481	\$ 806	\$565	\$ —	\$107,915
Gross client cash inflows	4,169	1,310	2,348	1,450	4	229	10	9,520
Gross client cash outflows	(2,195)	(4,578)	(2,857)	(2,133)	(196)	(93)	—	(12,052)
Net client cash flows	1,974	(3,268)	(509)	(683)	(192)	136	10	(2,532)
Market appreciation (depreciation)	1,199	45	1,716	797	9	25	—	3,791
Net transfers <sup>(1)</sup>	—	—	—	—	—	—	—	—
Ending assets under management	\$34,625	\$14,889	\$25,706	\$32,595	\$ 623	\$726	\$ 10	\$109,174
Average assets under management <sup>(2)</sup>	\$33,814	\$16,602	\$25,283	\$32,873	\$ 704	\$655	\$ 10	\$109,932

<sup>(1)</sup> Net transfers represent certain amounts that we have identified as having been transferred out of one investment strategy or investment vehicle and into another strategy or vehicle. <sup>(2)</sup> For the Developing World team, average assets

under management is for the period between June 29, 2015, when the team's strategy began investment operations, and June 30, 2015.

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

The table below sets forth our AUM by distribution channel:

	As of June 30, 2016 <sup>(1)</sup>		As of June 30, 2015 <sup>(1)</sup>	
	\$ in millions (unaudited)	% of total	\$ in millions (unaudited)	% of total
Institutional	\$61,557	64.8 %	\$68,852	63.1 %
Intermediary	28,652	30.2 %	34,233	31.3 %
Retail	4,750	5.0 %	6,089	5.6 %
Ending Assets Under Management	\$94,959	100.0%	\$109,174	100 %

<sup>(1)</sup> The allocation of AUM by distribution channel involves the use of estimates and the exercise of judgment.

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

Three Months Ended	Artisan Funds & Artisan Global Funds (unaudited; in millions)	Separate Accounts	Total
June 30, 2016			
Beginning assets under management	\$52,113	\$44,919	\$97,032
Gross client cash inflows	2,763	948	3,711
Gross client cash outflows	(4,737 )	(1,294 )	(6,031 )
Net client cash flows	(1,974 )	(346 )	(2,320 )
Market appreciation (depreciation)	162	69	231
Net transfers <sup>(1)</sup>	(95 )	111	16
Ending assets under management	\$50,206	\$44,753	\$94,959
Average assets under management	\$51,619	\$45,004	\$96,623
June 30, 2015			
Beginning assets under management	\$60,649	\$48,074	\$108,723
Gross client cash inflows	3,289	1,808	5,097
Gross client cash outflows	(3,888 )	(1,514 )	(5,402 )
Net client cash flows	(599 )	294	(305 )
Market appreciation (depreciation)	272	484	756
Net transfers <sup>(1)</sup>	(51 )	51	—
Ending assets under management	\$60,271	\$48,903	\$109,174
Average assets under management	\$61,761	\$49,662	\$111,423

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

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Six Months Ended	Artisan Funds & Artisan Global Funds	Separate Accounts	Total
June 30, 2016	(unaudited; in millions)		
Beginning assets under management	\$53,526	\$46,322	\$99,848
Gross client cash inflows	6,430	1,934	8,364
Gross client cash outflows	(8,958 )	(3,065 )	(12,023 )
Net client cash flows	(2,528 )	(1,131 )	(3,659 )
Market appreciation (depreciation)	(746 )	(484 )	(1,230 )
Net transfers <sup>(1)</sup>	(46 )	46	—
Ending assets under management	\$50,206	\$44,753	\$94,959
Average assets under management	\$50,752	\$43,995	\$94,747
June 30, 2015			
Beginning assets under management	\$60,257	\$47,658	\$107,915
Gross client cash inflows	6,997	2,523	9,520
Gross client cash outflows	(8,849 )	(3,203 )	(12,052 )
Net client cash flows	(1,852 )	(680 )	(2,532 )
Market appreciation (depreciation)	2,070	1,721	3,791
Net transfers <sup>(1)</sup>	(204 )	204	—
Ending assets under management	\$60,271	\$48,903	\$109,174
Average assets under management	\$61,025	\$48,907	\$109,932

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



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Results of Operations

Three months ended June 30, 2016, Compared to Three months ended June 30, 2015

	For the Three Months Ended June 30,		For the Period-to-Period	
	2016	2015	\$	%
Statements of operations data:	(unaudited; in millions, except per share data)			
Revenues	\$180.8	\$211.5	\$(30.7)	(15)%
Operating Expenses				
Total compensation and benefits	95.2	104.4	(9.2)	(9)%
Other operating expenses	26.7	28.8	(2.1)	(7)%
Total operating expenses	121.9	133.2	(11.3)	(8)%
Total operating income	58.9	78.3	(19.4)	(25)%
Non-operating income (loss)				
Interest expense	(2.9)	(2.9)	—	—%
Other non-operating income	—	0.4	(0.4)	(100)%
Total non-operating income (loss)	(2.9)	(2.5)	(0.4)	(16)%
Income before income taxes	56.0	75.8	(19.8)	(26)%
Provision for income taxes	12.7	16.5	(3.8)	(23)%
Net income before noncontrolling interests	43.3	59.3	(16.0)	(27)%
Less: Noncontrolling interests - Artisan Partners Holdings	25.0	35.5	(10.5)	(30)%
Net income attributable to Artisan Partners Asset Management Inc.	\$18.3	\$23.8	\$(5.5)	(23)%
Basic and diluted earnings per share - Class A common shares	\$0.38	\$0.50		
Weighted average shares of Class A common stock outstanding	38,023,585	35,992,493		

Revenues

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

The decrease in revenues of \$30.7 million, or 15%, for the three months ended June 30, 2016, compared to the three months ended June 30, 2015, was driven primarily by a \$14.8 billion, or 13%, decrease in our average AUM.

Our weighted average investment management fee was 75 basis points for the three months ended June 30, 2016 compared to 76 basis points for the three months ended June 30, 2015. The following table sets forth the weighted average fee (which reflects the additional services we provide to pooled vehicles) and composition of revenue and AUM by investment vehicle:

Separate Accounts	Artisan Funds and Artisan Global Funds	
For the Three Months Ended June 30, 2016	2015	For the Three Months Ended June 30, 2015
(unaudited; dollars in millions)		

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Investment management fees	\$62.0	\$68.9	\$118.8	\$142.6
	55	56	93	93
Weighted average fee	basis	basis	basis	basis
	points	points	points	points
Percentage of ending AUM	47 %	45 %	53 %	55 %

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## Operating Expenses

The decrease in total operating expenses of \$11.3 million for the three months ended June 30, 2016, compared to the three months ended June 30, 2015, was primarily a result of lower incentive compensation and third-party distribution expenses.

## Compensation and Benefits

	For the Three Months Ended June 30, 2016 2015		Period-to-Period \$ %	
	(unaudited; in millions)			
Salaries, incentive compensation and benefits <sup>(1)</sup>	\$77.2	\$84.6	\$(7.4)	(9)%
Restricted share-based award compensation expense	10.8	9.1	1.7	19%
Total salaries, incentive compensation and benefits	88.0	93.7	\$(5.7)	(6)%
Pre-offering related compensation - share-based awards	7.2	10.7	\$(3.5)	(33)%
Total compensation and benefits	\$95.2	\$104.4	\$(9.2)	(9)%

<sup>(1)</sup> Excluding restricted share-based award compensation expense

The decrease in salaries, incentive compensation, and benefits was driven primarily by an \$8.7 million decline in incentive compensation paid to our investment and marketing professionals as a result of lower investment management fee revenue. The decreases were partially offset by increased costs related to an increase in our number of employees.

Restricted share-based compensation expense increased \$1.7 million primarily as a result of our January 2016 grant of 1,082,035 restricted stock awards and 20,625 restricted stock units of Class A common stock to certain of our employees. Total compensation expense associated with the 2016 grants is expected to be approximately \$33.6 million.

Pre-offering related compensation expense, which consists of the amortization expense on pre-offering Class B awards, decreased \$3.5 million as certain awards became fully vested during 2015 and 2016. The Class B awards will be fully vested on July 1, 2017.

Total salaries, incentive compensation and benefits was 49% and 44% of our revenues for the three months ended June 30, 2016, and 2015, respectively.

## Other operating expenses

Other operating expenses decreased \$2.1 million for the three months ended June 30, 2016, compared to the three months ended June 30, 2015, primarily due to a \$3.3 million reduction in distribution expenses. Distribution expenses decreased as a result of a decrease in our AUM sourced from third-party intermediaries and the launch of the Advisor Share class for certain series of Artisan Funds. The amount we and Artisan Funds pay to intermediaries for distribution and administrative services with respect to Advisor Shares is less than the amount paid with respect to Investor Shares. The transfer of assets from Investor Shares to Advisor Shares reduced our intermediary fees by approximately \$0.7 million for the three months ended June 30, 2016 as compared to the three months ended June 30, 2015.

Other operating expenses includes a \$2.1 million increase in communication and technology expenses as a result of an increase in information subscriptions and consulting expense related to firm initiatives. We expect to continue to invest in technology to support our investment teams, distribution efforts, and scalable operations, bringing our expected annual communications and technology expense to approximately \$30 million.

## Provision for Income Taxes

The provision for income taxes primarily represents APAM's U.S. federal, state and local income taxes on its allocable portion of Holdings' income, as well as foreign income taxes payable by Holdings' subsidiaries. APAM's effective income tax rate for the three months ended June 30, 2016 and 2015, was 22.5% and 21.8%, respectively. Several factors contribute to the effective tax rate, including a rate benefit attributable to the fact that approximately 46% and

50% of Holdings' earnings were not subject to corporate-level taxes for the three months ended June 30, 2016 and 2015, respectively. Thus, income before income taxes includes amounts that are attributable to noncontrolling interests and not taxable to APAM and its subsidiaries, which reduces the effective tax rate. This favorable impact is partially offset by the impact of certain permanent items, primarily attributable to pre-IPO share-based compensation expenses, that are not deductible for tax purposes. These factors are expected to continue to impact the effective tax rate for future years, although as APAM's equity ownership in Holdings increases, the effective tax rate will likewise increase as more income will be subject to corporate-level taxes. The effective tax rate will also be affected by the discrete tax impact of future dividends on unvested share-based awards and future vesting of restricted share-based awards based on fluctuations in the trading price of APAM's Class A common stock between grant date and vesting date.

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## Earnings Per Share

Weighted average basic and diluted shares of Class A common stock outstanding were higher for the three months ended June 30, 2016, compared to the three months ended June 30, 2015, as a result of unit exchanges and equity award grants. See Note 11, "Earnings Per Share" in the Notes to the Unaudited Consolidated Financial Statements for further discussion of earnings per share.

Six months ended June 30, 2016, Compared to Six months ended June 30, 2015

	For the Six Months		For the	
	Ended June 30,	2015	Period-to-Period	
	2016		\$	%
Statements of operations data:	(unaudited; in millions, except per share data)			
Revenues	\$355.3	\$ 415.1	\$ (59.8 )	(14 )%
Operating Expenses				
Total compensation and benefits	190.5	213.2	(22.7 )	(11 )%
Other operating expenses	51.1	55.8	(4.7 )	(8 )%
Total operating expenses	241.6	269.0	(27.4 )	(10 )%
Total operating income	113.7	146.1	(32.4 )	(22 )%
Non-operating income (loss)				
Interest expense	(5.8 )	(5.8 )	—	— %
Other non-operating income	—	(6.0 )	6.0	100 %
Total non-operating income (loss)	(5.8 )	(11.8 )	6.0	51 %
Income before income taxes	107.9	134.3	(26.4 )	(20 )%
Provision for income taxes	24.2	21.6	2.6	12 %
Net income before noncontrolling interests	83.7	112.7	(29.0 )	(26 )%
Less: Noncontrolling interests - Artisan Partners Holdings	49.1	69.4	(20.3 )	(29 )%
Net income attributable to Artisan Partners Asset Management Inc.	\$34.6	\$ 43.3	\$ (8.7 )	(20 )%
Basic and diluted earnings per share - Class A common shares	\$0.74	\$ 0.95		
Weighted average shares of Class A common stock outstanding	37,497,268	38,322,266		

## Revenues

The decrease in revenues of \$59.8 million, or 14%, for the six months ended June 30, 2016, compared to the six months ended June 30, 2015, was driven primarily by a \$15.2 billion, or 14%, decrease in our average AUM. Our weighted average investment management fee rate was 75 basis points for the six months ended June 30, 2016, compared to 76 basis points for the six months ended June 30, 2015. The following table sets forth the weighted average fee (which reflects the additional services we provide to pooled vehicles) and composition of revenue and AUM by investment vehicle:

	Separate Accounts		Artisan Funds and Artisan Global Funds	
	For the Six Months Ended June 30, 2016	2015	For the Six Months Ended June 30, 2016	2015
	(unaudited; dollars in millions)			
Investment management fees	\$121.8	\$134.4	\$233.5	\$280.7
	56	55	93	93
Weighted average fee	basis	basis	basis	basis
	points	points	points	points
Percentage of ending AUM	47 %	45 %	53 %	55 %



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## Operating Expenses

The decrease in total operating expenses of \$27.4 million for the six months ended June 30, 2016, compared to the six months ended June 30, 2015, was primarily a result of lower incentive compensation and third-party distribution expenses and costs incurred in 2015 associated with the formation of our Developing World team.

## Compensation and Benefits

	For the Six		Period-to-Period	
	Months Ended	June 30,		
	2016	2015	\$	%
	(unaudited; in millions)			
Salaries, incentive compensation and benefits <sup>(1)</sup>	\$154.3	\$174.5	\$(20.2)	(12)%
Restricted share-based award compensation expense	21.2	17.6	3.6	20%
Total salaries, incentive compensation and benefits	175.5	192.1	(16.6)	(9)%
Pre-offering related compensation - share-based awards	15.0	21.1	(6.1)	(29)%
Total compensation and benefits	\$190.5	\$213.2	\$(22.7)	(11)%

<sup>(1)</sup> Excluding share-based compensation

The decrease in salaries, incentive compensation, and benefits was driven primarily by a \$17.1 million decline in incentive compensation paid to our investment and marketing professionals as a result of lower investment management fee revenue and \$6.0 million of start-up costs related to the Developing World team incurred in the first quarter of 2015. The decreases were partially offset by increased costs related to an increase in our number of employees.

Restricted share-based compensation expense increased \$3.6 million primarily as a result of restricted share-based awards granted in January 2016.

Pre-offering related compensation expense, which consists of the amortization expense on pre-offering Class B awards decreased \$6.1 million, as certain awards became fully vested during 2015 and 2016. The Class B awards will be fully vested on July 1, 2017.

Total salaries, incentive compensation and benefits was 49% and 46% of our revenues for the six months ended June 30, 2016, and 2015, respectively.

## Other operating expenses

Other operating expenses decreased \$4.7 million for the six months ended June 30, 2016 compared to the six months ended June 30, 2015, primarily due to a \$6.8 million reduction in distribution expenses. Distribution expenses decreased as a result of a decrease in our AUM sourced from third-party intermediaries and the launch of the Advisor Share class for certain series of Artisan Funds. The amount we and Artisan Funds pay to intermediaries for distribution and administrative services with respect to Advisor Shares is less than the amount paid with respect to Investor Shares. The transfer of assets from Investor Shares to Advisor Shares reduced our intermediary fees by approximately \$1.7 million for the six months ended June 30, 2016 as compared to the six months ended June 30, 2015.

Other operating expenses includes a \$4.0 million increase in communication and technology expenses as a result of an increase in information subscriptions and consulting expense related to firm initiatives.

## Non-Operating Income (Loss)

Non-operating income (loss) for the six months ended June 30, 2015 includes \$6.4 million of expense resulting from changes in the estimate of the payment obligation under the tax receivable agreements. The effect of changes in that estimate after the date of an exchange or sale that triggers a potential future payment under the agreements is included in net income. Similarly, the effect of changes in the estimate of enacted tax rates and in applicable tax laws are included in net income. No such changes were made in the six months ended June 30, 2016.

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Provision for Income Taxes

The provision for income taxes primarily represents APAM's U.S. federal, state and local income taxes on its allocable portion of Holdings' income, as well as foreign income taxes payable by Holdings' subsidiaries. APAM's effective income tax rate for the six months ended June 30, 2016 and 2015, was 22.4% and 16.1%, respectively. Several factors contribute to the effective tax rate, including a rate benefit attributable to the fact that approximately 46% and 50% of Holdings' earnings were not subject to corporate-level taxes for the six months ended June 30, 2016 and 2015, respectively. Thus, income before income taxes includes amounts that are attributable to noncontrolling interests and not taxable to APAM and its subsidiaries, which reduces the effective tax rate. This favorable impact is partially offset by the impact of certain permanent items, primarily attributable to pre-IPO share-based compensation expenses, that are not deductible for tax purposes. These factors are expected to continue to impact the effective tax rate for future years, although as APAM's equity ownership in Holdings increases, the effective tax rate will likewise increase as more income will be subject to corporate-level taxes. The effective tax rate will also be affected by the discrete tax impact of future dividends on unvested share-based awards and future vesting of restricted share-based awards based on fluctuations in the trading price of APAM's Class A common stock between the grant date and vesting date. Included in the tax provision for the six months ended June 30, 2015 are discrete tax benefits of \$7.7 million related to changes in estimates associated with our deferred tax assets.

Earnings Per Share

Weighted average basic and diluted shares of Class A common stock outstanding were higher for the six months ended June 30, 2016, compared to the six months ended June 30, 2015, as a result of stock offerings, unit exchanges, and equity award grants. See Note 11, "Earnings Per Share" in the Notes to the Unaudited Consolidated Financial Statements for further discussion of earnings per share.



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Supplemental Non-GAAP Financial Information

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

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

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

Adjusted 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 income before income taxes, interest expense and depreciation and amortization, adjusted to exclude the impact of net income attributable to non-controlling interests, pre-offering related compensation and net gain (loss) on the tax receivable agreements.

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.

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

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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 Three Months Ended June 30,		For the Six Months Ended June 30,	
	2016	2015	2016	2015
(unaudited; in millions, except per share data)				
Reconciliation of non-GAAP financial measures:				
Net income attributable to Artisan Partners Asset Management Inc. (GAAP)	\$ 18.3	\$ 23.8	\$ 34.6	\$ 43.3
Add back: Net income attributable to noncontrolling interests - Artisan Partners Holdings	25.0	35.5	49.1	69.4
Add back: Provision for income taxes	12.7	16.5	24.2	21.6
Add back: Pre-offering related compensation - share-based awards	7.2	10.7	15.0	21.1
Add back: Net loss on the tax receivable agreements	—	—	—	6.4
Less: Adjusted provision for income taxes	23.4	32.1	45.5	59.9
Adjusted net income (Non-GAAP)	\$ 39.8	\$ 54.4	\$ 77.4	\$ 101.9
Average shares outstanding				
Class A common shares	38.0	36.0	37.5	34.3
Assumed vesting or exchange of:				
Unvested Class A restricted share-based awards	3.9	3.3	3.6	3.2
Artisan Partners Holdings units outstanding (noncontrolling interest)	32.8	34.2	33.3	35.9
Adjusted shares	74.7	73.5	74.4	73.4
Basic and Diluted earnings per share (GAAP)				
Adjusted net income per adjusted share (Non-GAAP)	\$ 0.53	\$ 0.74	\$ 1.04	\$ 1.39
Operating income (GAAP)				
Add back: Pre-offering related compensation - share-based awards	7.2	10.7	15.0	21.1
Adjusted operating income (Non-GAAP)	\$ 66.1	\$ 89.0	\$ 128.7	\$ 167.2
Operating margin (GAAP)				
Adjusted operating margin (Non-GAAP)	36.6 %	42.1 %	36.2 %	40.3 %
Net income attributable to Artisan Partners Asset Management Inc. (GAAP)				
Add back: Net income attributable to noncontrolling interests - Artisan Partners Holdings	25.0	35.5	49.1	69.4
Add back: Pre-offering related compensation - share-based awards	7.2	10.7	15.0	21.1
Add back: Net loss on the tax receivable agreements	—	—	—	6.4
Add back: Interest expense	2.9	2.9	5.8	5.8
Add back: Provision for income taxes	12.7	16.5	24.2	21.6
Add back: Depreciation and amortization	1.2	1.1	2.4	2.1
Adjusted EBITDA (Non-GAAP)	\$ 67.3	\$ 90.5	\$ 131.1	\$ 169.7

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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 following table shows our liquidity position as of June 30, 2016, and December 31, 2015.

	June 30, 2016	December 31, 2015
	(unaudited; in millions)	
Cash and cash equivalents	\$197.8	\$ 166.2
Accounts receivable	\$62.8	\$ 60.1
Undrawn commitment on revolving credit facility	\$100.0	\$ 100.0

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.

In August 2012, we issued \$200.0 million in unsecured notes and entered into the \$100.0 million five-year revolving credit facility. The notes are comprised of three series, each with a balloon payment at maturity. The fixed interest rate on each series of unsecured notes is subject to a 100 basis point increase in the event Holdings receives a below-investment grade rating and any such increase will continue to apply until an investment grade rating is received. The \$100.0 million revolving credit facility was unused as of and for the six months ended June 30, 2016. These borrowings contain various restrictive covenants. Our failure to comply with any of the covenants could result in an event of default under the agreements, giving our lenders the ability to accelerate repayment of our obligations. We were in compliance with all debt covenants as of June 30, 2016.

## Distributions and Dividends

Artisan Partners Holdings distributions, including distributions to APAM for the three and six months ended June 30, 2016 and 2015, were as follows:

	For the Three Months Ended June 30, 2016		For the Six Months Ended June 30, 2015	
	(unaudited, in millions)			
Holdings Partnership Distributions to Limited Partners	\$43.1	\$54.6	\$62.4	\$96.7
Holdings Partnership Distributions to APAM	\$50.8	\$54.6	\$73.2	\$91.9
Total Holdings Partnership Distributions	\$93.9	\$109.2	\$135.6	\$188.6

On July 21, 2016, we, acting as the general partner of Artisan Partners Holdings, declared a distribution of \$39.4 million, payable by Artisan Partners Holdings to holders of its partnership units, including us.

APAM declared and paid the following dividends per share during the three and six months ended June 30, 2016 and 2015:

Type of Dividend	Class of Stock	For the Three Months Ended June 30, 2016		For the Six Months Ended June 30, 2015	
Quarterly	Class A Common	\$0.60	\$0.60	\$1.20	\$1.20
Special Annual	Class A Common	\$—	\$—	\$0.40	\$0.95

Subject to board approval each quarter, we expect to pay a quarterly dividend during 2016. On July 21, 2016, our board declared a quarterly dividend of \$0.60 per share of Class A common stock payable on August 31, 2016 to

shareholders of record as of August 17, 2016.

After the end of the year, our board expects to consider paying a special dividend that will take into consideration our annual adjusted earnings, business conditions and the amount of cash we want to retain at that time. Although we expect to pay dividends according to our dividend policy, we may not pay dividends according to our policy or at all.

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As of June 30, 2016, we have generated approximately \$11 million of cumulative TRA-related cash tax savings, net of TRA amounts paid to or due to limited partners. That \$11 million is available for future dividends to Class A common stockholders. In addition, Artisan Partners Holdings has retained approximately \$14 million of cash generated in 2015 and 2016 which is available for distribution to the partners of Artisan Partners Holdings, including APAM.

In addition to funding our normal operations, we will be required to fund amounts payable by us under the TRAs that we entered into in connection with the IPO.

**Tax Receivable Agreements (“TRAs”)**

In connection with the IPO, APAM entered into two TRAs, which resulted in the recognition of a \$591.7 million liability as of June 30, 2016. The \$591.7 million liability 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 certain of our investors and the exchange by certain of our investors of their common and preferred units of Holdings for our Class A common stock or convertible preferred stock after the IPO. The estimated liability assumes no material changes in the relevant tax law and that we earn sufficient taxable income to realize all tax benefits subject to the TRAs.

The liability will increase upon future purchases of Holdings units or exchanges of Holdings units for our Class A common stock or other consideration, with the increase representing 85% of the estimated future tax benefits, if any, resulting from such purchases or exchanges. We intend to fund the payment of amounts due under the TRAs out of the reduced tax payments that APAM realizes in respect of the tax attributes to which the TRAs relate.

The actual payments, and associated tax benefits, will vary depending upon a number of factors, including the timing of purchases or exchanges by the holders of Holdings units, the price of our Class A common stock at the time of such purchases or exchanges, the extent to which such purchases or exchanges are taxable, the amount and timing of the taxable income we generate in the future and the tax rate then applicable as well as the portion of our payments under the TRAs constituting imputed interest or depreciable basis or amortizable basis. In certain cases, payments under the TRAs may be accelerated and/or significantly exceed the actual benefits we realize in respect of the tax attributes subject to the TRAs. In such cases, we intend to fund those payments with cash on hand, although we may have to borrow funds depending on the amount and timing of the payments. We expect to make total payments of approximately \$28 million in 2016 related to the TRAs, approximately \$21 million of which we paid on April 15, 2016.

**Cash Flows**

	For the Six Months Ended June 30, 2016    2015 (unaudited; in millions)	
Cash as of January 1	\$166.2	\$182.3
Net cash provided by operating activities	184.1	214.3
Net cash used in investing activities	(3.9 )	(8.5 )
Net cash used in financing activities	(148.6 )	(172.6 )
Cash as of June 30	\$197.8	\$215.5

Operating activities provided net cash of \$184.1 million and \$214.3 million for the six months ended June 30, 2016 and 2015, respectively. The \$30.2 million decrease in cash provided by operating activities was primarily due to decreased revenues and operating income resulting from the decline in average AUM. For the six months ended June 30, 2016, compared to the six months ended June 30, 2015, our operating income, excluding share-based and pre-offering related compensation expenses, decreased \$34.9 million.

Investing activities consist primarily of acquiring and selling property and equipment, leasehold improvements and the purchase and sale of available-for-sale securities. Investing activities used net cash of \$3.9 million and \$8.5 million for the six months ended June 30, 2016 and 2015, respectively. The \$4.6 million decrease in net cash used in investing activities was primarily due to a \$5.8 million decrease in net purchases of investment securities for the six months

ended June 30, 2016, compared to the six months ended June 30, 2015.

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. Financing activities used net cash of \$148.6 million and \$172.6 million for the six months ended June 30, 2016 and 2015, respectively. The \$24.0 million decrease in net cash used by financing activities was primarily the result of a \$34.2 million decrease in distributions to limited partners and an \$11.7 million decrease in dividends paid. The decrease in cash used was partially offset by \$21 million of payments made related to the TRAs during the six months ended June 30, 2016. There were no payments made related to the TRAs during the six months ended June 30, 2015.

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Certain Contractual Obligations

As of June 30, 2016, there have been no material changes to our contractual obligations outside the ordinary course of business from those listed in the “Certain Contractual Obligations” table and related notes to the table in our Annual Report on Form 10-K for the year ended December 31, 2015, filed with the SEC on February 25, 2016, except for increases in the TRA liability. As previously discussed in this report, the TRA liability increased from \$589.1 million at December 31, 2015, to \$591.7 million at June 30, 2016. Amounts payable under the TRAs will increase upon exchanges of Holdings units for our Class A common stock or sales of Holdings units to us, with the increase representing 85% of the estimated future tax benefits, if any, resulting from such exchanges or sales. The actual amount and timing of payments associated with our existing payable under the TRAs or future exchanges or sales, and associated tax benefits, will vary depending upon a number of factors as described under “Liquidity and Capital Resources.” As a result, the timing of payments by period is currently unknown. We expect to make total payments of approximately \$28 million in 2016 related to the TRAs, approximately \$21 million of which we paid on April 15, 2016.

Off-Balance Sheet Arrangements

We did not have any off-balance sheet arrangements as of June 30, 2016.

Critical Accounting Policies and Estimates

There have been no updates to our critical accounting policies from those disclosed in Management’s Discussion and Analysis of Financial Condition and Results of Operations in our Form 10-K for the year ended December 31, 2015.

New or Revised Accounting Standards

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

Item 3. Qualitative and Quantitative Disclosures Regarding Market Risk

There have been no material changes in our Quantitative and Qualitative Disclosures Regarding Market Risk from those previously reported in our Form 10-K for the year ended December 31, 2015.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

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

Our management, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) at June 30, 2016. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are effective.

Changes in Internal Control over Financial Reporting

There have been no changes in internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended June 30, 2016, that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

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Part II — Other Information

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

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

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

Unregistered Sales of Equity Securities

As described in Note 7, “Stockholders’ Equity”, to the Unaudited Consolidated Financial Statements included in Part I of this report, upon termination of employment with Artisan, an employee-partner’s unvested Class B common units are forfeited. Generally, the employee-partner’s vested Class B common units are exchanged for Class E common units; the employee-partner’s shares of APAM Class B common stock are canceled; and APAM issues the former employee-partner a number of shares of APAM Class C common stock equal to the former employee-partner’s number of Class E common units. Class E common units are exchangeable for Class A common stock subject to the same restrictions and limitations on exchange applicable to the other common units of Holdings. There were no such issuances during the three months ended June 30, 2016.

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

Not applicable

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit No.	Description
31.1	Certification of the Company’s Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of the Company’s Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of the Company’s Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of the Company’s Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	The following Extensible Business Reporting Language (XBRL) documents are collectively included herewith as Exhibit 101: (i) the Unaudited Condensed Consolidated Statements of Financial Condition as of June 30, 2016 and December 31, 2015; (ii) the Unaudited Consolidated Statements of Operations for the three and six months ended June 30, 2016 and 2015; (iii) the Unaudited Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2016 and 2015; (iv) the Unaudited Consolidated Statements of Changes in Stockholders’ Equity for the six months ended June 30, 2016 and 2015; (v) the Unaudited Consolidated Statements of Cash Flows for the six months ended June 30, 2016 and 2015 (vi) the Notes to Unaudited Consolidated Financial Statements as of and for the three and six months ended June 30, 2016 and 2015



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SIGNATURES

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

Artisan Partners Asset Management Inc.

Dated: August 2, 2016

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)