Artisan Partners Asset Management Inc.
Form 10-K
February 21, 2017

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

Form 10-K
(Mark One)

þ	ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2016
OR	
o	TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM TO

Commission file number: 001-35826

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

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

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

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

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

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically 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 þ No o

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 þ		Accelerated filer o
Non-accelerated filer o	(Do not check if a smaller reporting company)	Smaller reporting company o

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

The aggregate market value of common equity held by non-affiliates of the registrant at June 30, 2016, which was the last business day of the registrant's most recently completed second fiscal quarter, was approximately $1,152,803,630 based on the closing price of $27.68 for one share of Class A common stock, as reported on the New York Stock Exchange on that date. For purposes of this calculation only, it is assumed that the affiliates of the registrant include only directors and executive officers of the registrant.

The number of outstanding shares of the registrant's Class A common stock, par value $0.01 per share, Class B common stock, par value $0.01 per share, and Class C common stock, par value $0.01 per share, as of February 16, 2017 were 43,385,703, 15,142,049 and 17,063,384, respectively.

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Except where the context requires otherwise, in this report:

- “Artisan Funds” refers to Artisan Partners Funds, Inc., a family of Securities and Exchange Commission registered mutual funds.
- “Artisan Global Funds” refers to Artisan Partners Global Funds PLC, a family of Ireland-domiciled funds organized pursuant to the European Union’s Undertaking for Collective Investment in Transferable Securities (“UCITS”).

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- “client” and “clients” refer to investors who access our investment management services by investing in mutual funds, including the funds of Artisan Funds or Artisan Global Funds, or by engaging us to manage a separate account in one or more of our investment strategies (such accounts include collective investment trusts and other pooled investment vehicles for which we are investment adviser, each of which we manage on a separate account basis).
- “Company”, “Artisan”, “we”, “us” or “our” refer to Artisan Partners Asset Management Inc. (“APAM”) and, unless the context otherwise requires, its direct and indirect subsidiaries, including Artisan Partners Holdings LP (“Artisan Partners Holdings” or “Holdings”), and, for periods prior to our IPO, “Artisan,” the “company,” “we,” “us” and “our” refer to Artisan Partners Holdings and, unless the context otherwise requires, its direct and indirect subsidiaries. On March 12, 2013, APAM closed its IPO and related IPO Reorganization. Prior to that date, APAM was a subsidiary of Artisan Partners Holdings. The IPO Reorganization and IPO are described in the notes to our consolidated financial statements included in Part II of this Form 10-K.
- “IPO” means the initial public offering of 12,712,279 shares of Class A common stock of Artisan Partners Asset Management Inc. completed on March 12, 2013.
- “IPO Reorganization” means the series of transactions Artisan Partners Asset Management Inc. and Artisan Partners Holdings completed on March 12, 2013, immediately prior to the IPO, in order to reorganize their capital structures in preparation for the IPO.
- “2014 Follow-On Offering” means the registered offering of 9,284,337 shares of Class A common stock of Artisan Partners Asset Management Inc. completed on March 12, 2014.
- “2015 Follow-On Offering” means the registered offering of 3,831,550 shares of Class A common stock of Artisan Partners Asset Management Inc. completed on March 9, 2015.

Forward-Looking Statements

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

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

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

- our estimates of future amounts payable pursuant to our tax receivable agreements.

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Performance and Assets Under Management Information Used in this Report

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

We measure the results both of our individual funds and of our "composites", which represent the aggregate performance of all discretionary client accounts, including mutual funds, invested in the same strategy, except those accounts with respect to which we believe client-imposed investment restrictions (such as socially-based restrictions) may have a material impact on portfolio construction and those accounts managed in a currency other than U.S. dollars (the results of these accounts are maintained in separate composites, which are not presented in this report). The performance of accounts with investment restrictions differs from the performance of accounts included in our principal composite for the applicable strategy because one or more securities may be omitted from the portfolio in order to comply with the restrictions and the weightings in the portfolio of other securities are correspondingly altered. The performance of non-U.S. dollar accounts differs from the performance of the principal composite for the applicable strategy because of the fluctuations in currency exchange rates between the currencies in which portfolio securities are traded and the currency in which the account is managed or U.S. dollars, respectively. Our assets under management in accounts with investment restrictions and non-U.S. dollar accounts represented approximately 2% and 10%, respectively, of our assets under management as of December 31, 2016. Results for any investment strategy described herein, and for different investment vehicles within a strategy, are affected by numerous factors, including: different material market or economic conditions; different investment management fee rates, brokerage commissions and other expenses; and the reinvestment of dividends or other earnings.

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

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

The MSCI EAFE Index, the MSCI EAFE Growth Index, the MSCI EAFE Small Cap Index, the MSCI EAFE Value Index, the MSCI ACWI Index and the MSCI Emerging Markets Index are trademarks of MSCI Inc. MSCI Inc. is the owner of all copyrights relating to these indices and is the source of the performance statistics of these indices that are referred to in this report.

The Russell 2000® Index, the Russell 2000® Value Index, the Russell Midcap® Index, the Russell Midcap® Value Index, the Russell 1000® Index, the Russell 1000® Value Index, the Russell Midcap® Growth Index and the Russell 2000® Growth Index are trademarks of Frank Russell Company. Frank Russell Company is the owner of all copyrights relating to these indices and is the source of the performance statistics that are referred to in this report.

The BofA Merrill Lynch US High Yield Master II Index is licensed from BofA Merrill Lynch, which is the source of the performance statistics of this index.

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In this report, we present Morningstar, Inc., or Morningstar, ratings for series of Artisan Funds. The Morningstar Rating™ for funds, or "star rating", is calculated for managed products (including mutual funds, variable annuity and variable life subaccounts, exchange-traded funds, closed-end funds, and separate accounts) with at least a three-year history. Exchange-traded funds and open-ended mutual funds are considered a single population for comparative purposes. It is calculated based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a managed product's monthly excess performance, placing more emphasis on downward variations and rewarding consistent performance. The top 10% of products in each product category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. The Overall Morningstar Rating for a managed product is derived from a weighted average of the performance figures associated with its three-, five-, and 10-year (if applicable) Morningstar Rating metrics. The weights are: 100% three-year rating for 36-59 months of total returns, 60% five-year rating/40% three-year rating for 60-119 months of total returns, and 50% 10-year rating/30% five-year rating/20% three-year rating for 120 or more months of total returns. While the 10-year overall star rating formula seems to give the most weight to the 10-year period, the most recent three-year period actually has the greatest impact because it is included in all three rating periods.

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

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

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

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PART I

Item 1. Business

Overview

Founded in 1994, we are an investment management firm that provides a broad range of U.S., non-U.S. and global investment strategies, each of which is managed by one of our distinct and autonomous investment teams. Since our founding, we have pursued a business model that is designed to maximize our ability to produce attractive investment results for our clients, and we believe this model has contributed to our success in doing so. We focus on attracting, retaining and developing talented investment professionals by creating an environment in which each investment team is provided ample resources and support, transparent and direct financial incentives, and a high degree of investment autonomy. Each of our investment teams is led by one or more experienced portfolio managers with a track record of strong investment performance and is devoted to identifying long-term investment opportunities. We believe this autonomous structure promotes independent analysis and accountability among our investment professionals, which we believe promotes superior investment results.

The following table sets forth our revenues and our ending and average assets under management for the periods noted:

	For the Years Ended December 31,		
	2016	2015	2014
	(in millions)		
Total revenues	$721	$806	$829
Ending assets under management	$96,845	$99,848	$107,915
Average assets under management	$96,281	$106,484	$107,865

Each of our investment strategies is designed to have a clearly articulated, consistent and replicable investment process that is well-understood by clients and managed to achieve long-term performance. Throughout our history, we have expanded our investment management capabilities in a disciplined manner that we believe is consistent with our overall philosophy of offering high value-added investment strategies in growing asset classes. We have expanded the range of strategies that we offer by launching new strategies managed by our existing investment teams as those teams have developed investment capacity, as well as by launching new strategies managed by new investment teams recruited to join Artisan. During 2014, we established the Artisan Credit Team, which manages the Artisan High Income strategy, our first fixed income strategy. During 2015, we established the Artisan Developing World Team, which manages the Artisan Developing World strategy. During 2016, we established the Artisan Thematic Team, which we expect will launch its first strategy in 2017.

We launch a new strategy only when we believe it has the potential to achieve superior investment performance in an area that we believe will have sustained client demand at attractive fee rates over the long term. We strive to maintain the integrity of the investment process followed in each of our strategies by rigorous adherence to the investment parameters we have communicated to our clients. We also carefully monitor our investment capacity in each investment strategy. We believe that management of our investment capacity protects our ability to manage assets successfully, which protects the interests of our clients and, in the long term, protects our ability to retain client assets and maintain our profit margins. In order to better achieve our long-term goals, we are willing to close a strategy to new investors or otherwise take action to slow or restrict its growth, even though our short-term results may be impacted.

In addition to our investment teams, we have a management team that is focused on our business objectives of achieving profitable growth, expanding our investment capabilities, diversifying the source of our assets under management, delivering superior client service, developing our investment teams into investment franchises with multiple decision-makers and investment strategies, and maintaining the firm's fiduciary mindset and culture of compliance. Our management team supports our investment management capabilities and manages a centralized infrastructure, which allows our investment professionals to focus primarily on making investment decisions and generating returns for our clients.

We offer our investment management capabilities primarily to institutions and through intermediaries that operate with institutional-like decision-making processes and have longer-term investment horizons, by means of separate accounts and pooled vehicles. As of December 31, 2016, separate accounts represented $47.5 billion, or 49%, of our assets under management.

We serve as the investment adviser to Artisan Partners Funds, Inc., an SEC-registered family of mutual funds that offers shares in multiple classes designed to meet the needs of a range of institutional and other investors, and as investment manager of Artisan Partners Global Funds PLC, a family of Ireland-based UCITS funds that began operations in 2011 and offers shares to non-U.S. investors. Artisan Funds and Artisan Global Funds comprised $49.3 billion, or 51%, of our assets under management as of December 31, 2016.

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We access traditional institutional clients primarily through relationships with investment consultants. We access other institutional-like investors primarily through consultants, alliances with major defined contribution/401(k) platforms and relationships with financial advisors and broker-dealers. We derive essentially all of our revenues from investment management fees, which primarily are based on a specified percentage of clients' average assets under management. These fees are derived from investment advisory and sub-advisory agreements that are terminable by clients upon short notice or no notice.

As of December 31, 2016, we had approximately 380 employees. Our employees, including our investment professionals and senior management, to whom we have granted equity collectively owned approximately 25% of the equity ownership interests in our company as of December 31, 2016.

Investment Teams

We provide clients with multiple equity investment strategies spanning market capitalization segments and investing styles in both U.S. and non-U.S. markets. We also offer one fixed income strategy, the Artisan High Income strategy. Each strategy is managed by one of the investment teams described below. Each team operates autonomously to identify investment opportunities in order to generate strong, long-term investment performance.

The table below sets forth the total assets under management for each of our investment teams and strategies as of December 31, 2016, the inception date for each investment composite, the value-added by each strategy since inception date, and the Overall Morningstar Rating™ for the share class of the respective series of Artisan Funds with the earliest inception date.

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Investment Team and Strategy	AUM as of December 31, 2016 (in millions)	Composite Inception Date	Value-Added Since Inception Date (1) as of December 31, 2016	Fund Rating(2) as of December 31, 2016
Global Equity Team				
Non-U.S. Growth Strategy	$23,475	January 1, 1996	533	«««
Non-U.S. Small-Cap Growth Strategy	887	January 1, 2002	304	««
Global Equity Strategy	1,128	April 1, 2010	339	«««
Global Small-Cap Growth Strategy (3)	20	July 1, 2013	(808)	«
U.S. Value Team (4)				
U.S. Mid-Cap Value Strategy	6,744	April 1, 1999	435	«««
Value Equity Strategy	1,844	July 1, 2005	31	«««
Growth Team				
U.S. Mid-Cap Growth Strategy	13,126	April 1, 1997	458	«««
U.S. Small-Cap Growth Strategy	2,065	April 1, 1995	47	«««
Global Opportunities Strategy	10,523	February 1, 2007	553	«««««
Global Value Team				
Non-U.S. Value Strategy	17,855	July 1, 2002	664	«««««
Global Value Strategy	16,085	July 1, 2007	529	«««««
Emerging Markets Team				
Emerging Markets Strategy	228	July 1, 2006	30	«««
Credit Team				
High Income Strategy	1,878	April 1, 2014	315	Not yet rated
Developing World Team				
Developing World Strategy	987	July 1, 2015	532	Not yet rated
Total AUM as of December 31, 2016	$96,845			

(1) Value-added since inception date is the amount in basis points by which the average annual gross composite return of each of our strategies has outperformed the broad-based market index most commonly used by our clients to compare the performance of the relevant strategy since its inception date. Value-added for periods less than one year are not annualized. The broad-based market indices used to compute the value added since inception date for each of our strategies are as follows: Non-U.S. Growth Strategy / Non-U.S. Value Strategy-MSCI EAFE Index; Global Equity Strategy / Global Opportunities Strategy / Global Value Strategy-MSCI ACWI Index; Non-U.S. Small-Cap Growth Strategy-MSCI EAFE Small Cap Index; U.S. Mid-Cap Growth Strategy / U.S. Mid-Cap Value Strategy-Russell Midcap® Index; U.S. Small-Cap Growth Strategy-Russell 2000® Index; Value Equity Strategy-Russell 1000® Index; Developing World Strategy / Emerging Markets Strategy-MSCI Emerging Markets Index; High Income Strategy-BofA Merrill Lynch High Yield Master II Index. Unlike the BofA Merrill Lynch High Yield Master ll Index, the Artisan High Income strategy may hold loans and other security types. At times, this causes material differences in relative performance.

(2) The Morningstar Overall Rating™ compares the risk-adjusted performance of the Artisan Funds series to other funds in a category assigned by Morningstar based on its analysis of the funds' portfolio holdings. The top 10% of funds receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars and the bottom 10% receive 1 star. The Overall Morningstar Rating™ is derived from a weighted average of the performance figures associated with the rated fund's three-, five- and 10-year (if applicable) Morningstar Rating metrics. The Artisan Funds, the ratings of which are reflected in the table above, and the categories in which they are rated are: Artisan International Fund-Foreign Large Growth; Artisan International Small Cap Fund-Foreign Small/Mid Growth; Artisan Global Equity Fund-World Stock; Artisan Mid Cap Value Fund-Mid-Cap Value; Artisan Value Equity Fund-Large Value; Artisan Mid Cap Fund-Mid-Cap Growth; Artisan Small Cap Fund-Small Growth; Artisan Global Opportunities Fund-World Stock; Artisan International Value Fund-Foreign Large Blend; Artisan Global Value Fund-World Stock; Artisan Emerging Markets Fund-Diversified Emerging Mkts. Morningstar ratings are initially given on a fund's three-year track record and change monthly.

(3) Effective January 20, 2017, we no longer manage assets in the Global Small-Cap Growth Strategy.

(4) Prior to May 23, 2016, the U.S. Value Team managed a third strategy, the U.S. Small-Cap Value Strategy. In May 2016, we completed the reorganization of Artisan Small Cap Value Fund into Artisan Mid Cap Value Fund and ceased managing assets in the U.S. Small-Cap Value Strategy.

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Global Equity Team

Our Global Equity team was formed in 1996 and is primarily based in San Francisco and New York. The Global Equity team manages three investment strategies: Non-U.S. Growth, Non-U.S. Small-Cap Growth and Global Equity. Mark L. Yockey is the founder of our Global Equity team and has been portfolio manager of each of the team's strategies since their inception. Charles-Henri Hamker and Andrew J. Euretig are associate portfolio managers of the Non-U.S. Growth strategy and portfolio co-managers (with Mr. Yockey) of the Global Equity strategy. Mr. Hamker also serves as portfolio manager of the Non-U.S. Small-Cap Growth strategy with Mr. Yockey. The Non-U.S. Growth and Non-U.S. Small-Cap Growth strategies are currently closed to most new investors and client relationships. On January 20, 2017, the Global Equity team ceased managing assets in a fourth strategy, the Artisan Global Small-Cap Growth strategy.

The Global Equity team employs a fundamental stock selection process focused on identifying companies within its preferred themes with sustainable growth characteristics at valuations that do not fully reflect their long-term potential. The team's objective is to invest in companies that are industry leaders and have meaningful exposure to and will benefit from long-term secular growth trends. To identify long-term, sustainable growth characteristics of potential investments, the team seeks high-quality companies that typically have a sustainable competitive advantage, a superior business model and a high-quality management team. Finally, the team uses multiple valuation metrics to establish a target price range and assesses the relationship between its estimate of a company's sustainable growth prospects and the company's current valuation.

	As of December 31, 2016				
Investment Strategy (Inception Date)	1 Year	3 Years	5 Years	10 Years	Inception
Non-U.S. Growth (January 1, 1996)					
Average Annual Gross Returns	(8.87)%	(3.72)%	7.50 %	2.92 %	9.58 %
MSCI EAFE® Index	1.00 %	(1.60)%	6.53 %	0.75 %	4.25 %
Non-U.S. Small-Cap Growth (January 1, 2002)					
Average Annual Gross Returns	(11.86)%	(3.76)%	9.77 %	4.82 %	12.56 %
MSCI EAFE® Small Cap Index	2.18 %	2.10 %	10.54%	2.94 %	9.52 %
Global Equity (April 1, 2010)					
Average Annual Gross Returns	(0.48)%	2.11 %	12.68	—	10.42 %
MSCI ACWI® Index	7.86 %	3.13 %	9.35	—	7.04 %
Global Small-Cap Growth (July 1, 2013) (1)					
Average Annual Gross Returns	(13.18)%	(4.89)	—	—	0.38 %
MSCI ACWI® Small Cap Index	11.59 %	3.97	—	—	8.46 %

(1) Effective January 20, 2017, we no longer manage assets in the Global Small-Cap Growth strategy.

U.S. Value Team

Our U.S. Value team, which was formed in 1997 and is based in Atlanta, Georgia, manages two investment strategies: U.S. Mid-Cap Value and Value Equity. James C. Kieffer, George O. Sertl, Jr. and Daniel L. Kane are the portfolio co-managers for both strategies. Scott C. Satterwhite, who was a co-portfolio manager on the U.S. Value team, retired in October 2016, consistent with the transition plan announced by us in September 2013. Prior to May 23, 2016, the U.S. Value team managed a third strategy, the U.S. Small-Cap Value strategy. In May 2016, we completed the reorganization of Artisan Small Cap Value Fund into Artisan Mid Cap Value Fund and ceased managing assets in the U.S. Small-Cap Value strategy. In November 2016, we announced the re-opening of the U.S. Mid-Cap Value strategy across all investment vehicles.

The U.S. Value team's strategies employ a fundamental investment process used to construct diversified portfolios of companies that the team believes are undervalued, are in solid financial condition and have attractive business economics. The team believes companies with these characteristics are less likely to experience eroding values over the long term compared to companies without such characteristics.

The team values a business using what it believes are reasonable expectations for the long-term earnings power and capitalization rates of that business. This results in a range of values for the company that the team believes would be reasonable. The team generally will purchase a security if the stock price falls below or toward the lower end of that range.

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The team prefers companies with an acceptable level of debt and positive cash flow. At a minimum, the team seeks to avoid companies that have so much debt that management may be unable to make decisions that would be in the best interest of the companies' shareholders. The team also favors cash-producing businesses that it believes are capable of earning acceptable returns on capital over the company's business cycle.

	As of December 31, 2016				
Investment Strategy (Inception Date)	1 Year	3 Years	5 Years	10 Years	Inception
U.S. Mid-Cap Value (April 1, 1999)					
Average Annual Gross Returns	23.87 %	5.09 %	12.44 %	9.07 %	13.51 %
Russell Midcap® Index	13.80 %	7.91 %	14.70 %	7.85 %	9.15 %
Value Equity (July 1, 2005)					
Average Annual Gross Returns	30.22 %	8.13 %	12.94 %	7.12 %	8.33 %
Russell 1000® Index	12.05 %	8.58 %	14.67 %	7.08 %	8.02 %

Growth Team

Our Growth team, which was formed in 1997 and is based in Milwaukee, Wisconsin, manages three investment strategies: U.S. Mid-Cap Growth, Global Opportunities and U.S. Small-Cap Growth. James D. Hamel, Matthew H. Kamm, Craigh A. Cepukenas, and Jason L. White are the portfolio co-managers of all three strategies. Mr. Kamm is the lead portfolio manager of the U.S. Mid-Cap Growth strategy; Mr. Hamel is the lead portfolio manager of the Global Opportunities strategy; and Mr. Cepukenas is the lead portfolio manager of the U.S. Small-Cap Growth strategy. The U.S. Mid-Cap Growth and U.S. Small-Cap Growth strategies are currently closed to most new investors and client relationships.

The Growth team's investment process focuses on two distinct areas - security selection and capital allocation. The team's investment process begins by identifying companies that have franchise characteristics (e.g. low cost production capability, possession of a proprietary asset, dominant market share or a defensible brand name), are benefiting from an accelerating profit cycle and are trading at a discount to the team's estimate of private market value. The team looks for companies that are well positioned for long-term growth, which is driven by demand for their products and services at an early enough stage in their profit cycle to benefit from the increased cash flows produced by the emerging profit cycle.

Based on the investment team's fundamental analysis of a company's profit cycle, the investment team classifies each portfolio holding in one of three stages. Garden℠ investments generally are smaller positions in the early part of their profit cycle that may warrant a larger allocation once their profit cycle accelerates. Crop℠ investments are positions that are being increased to or maintained at a full weight because they are moving through the strongest part of their profit cycle. Harvest℠ investments are positions that are being reduced as they near the investment team's estimate of full valuation or their profit cycle begins to decelerate. The team overlays the security selection and capital allocation elements of its investment process with a desire to invest opportunistically across the entire global economy. The team seeks broad knowledge of the global economy in order to position it to find growth wherever it occurs.

	As of December 31, 2016				
Investment Strategy (Inception Date)	1 Year	3 Years	5 Years	10 Years	Inception
U.S. Mid-Cap Growth (April 1, 1997)					
Average Annual Gross Returns	0.28 %	3.52 %	13.27 %	10.00 %	14.73 %
Russell Midcap® Index	13.80 %	7.91 %	14.70 %	7.85 %	10.15 %
Global Opportunities (February 1, 2007)					
Average Annual Gross Returns	5.53 %	6.10 %	14.55 %	—	9.02 %
MSCI ACWI® Index	7.86 %	3.13 %	9.35 %	—	3.49 %
U.S. Small-Cap Growth (April 1, 1995)					
Average Annual Gross Returns	6.90 %	2.91 %	13.47 %	8.06 %	9.80 %
Russell 2000® Index	21.31 %	6.74 %	14.44 %	7.06 %	9.33 %

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Global Value Team

Our Global Value team was formed in 2002 and is based in San Francisco and Chicago. The team manages two investment strategies: Non-U.S. Value and Global Value. N. David Samra and Daniel J. O'Keefe are the portfolio co-managers of both strategies. Mr. Samra is the lead portfolio manager of the Non-U.S. Value strategy, and Mr. O'Keefe is the lead portfolio manager of the Global Value strategy. The Non-U.S. Value strategy is closed to most new investors and client relationships. The Global Value strategy is open to new relationships through pooled investment vehicles, but generally closed to most new separate account relationships.

The Global Value team's strategies employ a fundamental investment process used to construct diversified portfolios of companies. The team seeks to invest in what it considers to be high quality, undervalued companies with strong balance sheets and shareholder-oriented management teams.

Determining the intrinsic value of a business is the heart of the team's research process. The team believes that intrinsic value represents the amount that a buyer would pay to own a company's future cash flows. The team seeks to invest at a significant discount to its estimate of the intrinsic value of a business. The team also seeks to invest in companies with histories of generating strong free cash flow, improving returns on capital and strong competitive positions in their industries. The team believes that investing in companies with strong balance sheets helps to reduce the potential for capital risk and provides company management the ability to build value when attractive opportunities are available. The team's research process also attempts to identify management teams with a history of building value for shareholders.

The team ranks companies that make it through this analytical process according to the degree of the discount of the current market price of the stock to the team's estimate of the company's intrinsic value. The team manages its strategies by generally taking larger positions in companies where the discount is greatest and smaller positions in companies with narrower discounts (subject to adjustments for investment-related concerns, including, diversification, risk management and liquidity).

	As of December 31, 2016				
Investment Strategy (Inception Date)	1 Year	3 Years	5 Years	10 Years	Inception
Non-U.S. Value (July 1, 2002)					
Average Annual Gross Returns	6.44 %	2.25 %	11.85 %	6.64 %	12.22 %
MSCI EAFE® Index	1.00 %	(1.60)%	6.53 %	0.75 %	5.59 %
Global Value (July 1, 2007)					
Average Annual Gross Returns	11.32 %	5.07 %	13.35 %	—	8.02 %
MSCI ACWI® Index	7.86 %	3.13 %	9.35 %	—	2.72 %

Emerging Markets Team

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

The Emerging Markets team employs a fundamental research process to construct a diversified portfolio of emerging market companies. The team seeks to invest in companies that it believes are uniquely positioned to benefit from the growth potential in emerging markets and possess a sustainable global competitive advantage. The team believes that over the long-term a stock's price is directly related to the company's ability to deliver sustainable earnings, which the team determines based upon financial and strategic analyses. The team also believes that a disciplined risk framework allows greater focus on fundamental stock selection. The team incorporates its assessment of company-specific and macroeconomic risks into its valuation analysis to develop a risk adjusted target price. The risk-rating assessment includes a review of country-appropriate macroeconomic risk factors to which a company is exposed. Finally, the team believes that investment opportunities develop when businesses with sustainable earnings are undervalued relative to peers and historical industry, country and regional valuations. The team values a business and develops a price target for a company based on its assessment of the business's sustainable earnings and risk analysis.

As of December 31, 2016

Investment Strategy (Inception Date)	1 Year	3 Years	5 Years	10 Years	Inception
Emerging Markets (July 1, 2006)					
Average Annual Gross Returns	17.03%	0.43 %	3.01 %	2.01	4.09 %
MSCI Emerging Markets Index^{SM}	11.19%	(2.55)%	1.27 %	1.84	3.80 %

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Credit Team

Our Credit team, which was formed in 2014 and is based in Mission Woods, Kansas, manages a single investment strategy. Bryan L. Krug is the portfolio manager for the High Income strategy. The Credit team seeks to invest in issuers with high quality business models that have compelling risk-adjusted return characteristics. The team uses a fundamental investment process to construct a diversified portfolio of attractively valued high yield corporate bonds and secured and unsecured loans of U.S. and non-U.S. issuers. The Credit team's research process has four primary pillars: business quality; financial strength and flexibility; downside analysis; and value identification.

The team analyzes the general health of the industry in which an issuer operates, the issuer's competitive position, the dynamics of industry participants, and the decision-making history of the issuer's management. To understand an issuer's financial health, the team believes it is critical to analyze the history and trend of free cash flow. The team also considers an issuer's capital structure, refinancing options, financial covenants, amortization schedules and overall financial transparency. The team seeks to manage the risk of loss with what it believes to be conservative financial projections that account for industry position, competitive dynamics and positioning within the capital structure. To determine the value of an investment opportunity the team uses multiple valuation metrics. The team looks for credit improvement potential, relative value within an issuer's capital structure, catalysts for business improvement and potential value stemming from market or industry dislocations.

	As of December 31, 2016				
Investment Strategy (Inception Date)	1 Year	3 Years	5 Years	10 Years	Inception
High Income (April 1, 2014)					
Average Annual Gross Returns	15.74%	—	—	—	7.19 %
BofA Merrill Lynch High Yield Master II Index	17.49%	—	—	—	4.03 %

Developing World Team

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

The Developing World team employs a fundamental investment process to construct a diversified portfolio of securities that offers exposure to developing world economies. In pursuit of this goal, the team generally invests substantially in companies domiciled in or economically tied to countries the team considers to have characteristics typical of the developing world. The team generally seeks to emphasize business value compounders, which it defines as financially sound, free cash flow generative companies with sound business models that are exposed to the growth potential of the developing world. The team may seek to mitigate currency volatility by emphasizing investments in countries and currencies that are less dependent on foreign capital. The Developing World team believes a portfolio of companies with these characteristics will be well positioned to deliver attractive risk-adjusted returns over the long term.

	As of December 31, 2016				
Investment Strategy (Inception Date)	1 Year	3 Years	5 Years	10 Years	Inception
Developing World (July 1, 2015)					
Average Annual Gross Returns	13.08%	—	—	—	(0.14)%
MSCI Emerging Markets Index	11.19%	—	—	—	(5.46)%

Thematic Team

Our Thematic team was formed in late 2016 and is based in New York. We expect the Thematic team will manage both a concentrated mutual fund and a long-short private fund. The team will seek to identify secular, structural and cyclical trends that it expects will exhibit above-market growth for 3-5 years and use fundamental analysis to identify companies exposed to these trends. The team believes the combination of a top-down thematic framework and bottom-up analysis will position a portfolio to deliver attractive risk-adjusted returns over the long term.

Distribution, Investment Products and Client Relationships

The goal of our marketing, distribution and client service efforts is to establish and maintain a client base that is diversified by investment strategy, investment vehicle (for example, across mutual funds and separate accounts), distribution channel (for example, institutional, intermediary and retail) and geographic region. We focus our distribution and marketing efforts on institutions and on intermediaries that operate with institutional-like, centralized decision-making processes and longer-term investment horizons.

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We have designed our distribution strategies and structured our distribution teams to use knowledgeable, seasoned marketing and client service professionals in a way intended to limit the time our investment professionals are required to spend in marketing and client service activities. We believe that minimizing other demands allows our portfolio managers and other investment professionals to focus their energies and attention on the investment decision-making process, which we believe enhances the opportunity to achieve superior investment returns.

Our distribution efforts are centrally managed by our Head of Global Distribution, who oversees and coordinates the efforts of our marketing and client service professionals. We continue to expand our distribution efforts into non-U.S. markets, with our primary non-U.S. efforts focused currently on the United Kingdom, other European countries, Australia, Canada and certain Asian countries where we believe there is growing demand for global and non-U.S. investment strategies. In our non-U.S. distribution efforts, we use regional specialists who draw on the knowledge and expertise of our strategy-focused professionals. As of December 31, 2016, 18% of our total assets under management were sourced from clients located outside the United States.

Institutional Channel

Our institutional distribution channel includes institutional clients, such as U.S.-registered mutual funds, non-U.S. funds and collective investment trusts we sub-advise; state and local governments; employee benefit plans including Taft-Hartley plans; foundations; and endowments. Our institutional distribution channel also includes defined contribution/401(k) plans. We offer our investment products to institutional clients directly and by marketing our services to the investment consultants and advisors that advise them. As of December 31, 2016, approximately 43% of our assets under management were attributed to clients represented by investment consultants, and no single consulting firm represented clients (including investors in Artisan Funds) having more than 9% of our assets under management.

As of December 31, 2016, 66% of our assets under management were sourced through our institutional channel.

Intermediary Channel

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

As of December 31, 2016, approximately 29% of our assets under management were sourced through our intermediary channel.

Retail Channel

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

As of December 31, 2016, approximately 5% of our assets under management were sourced from investors we categorize as retail investors.

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Access Through a Range of Investment Vehicles

Our clients access our investment strategies through a range of investment vehicles, including separate accounts and mutual funds. As of December 31, 2016, approximately 49% of our assets under management were in separate accounts, and Artisan Funds and Artisan Global Funds accounted for approximately 51% of our total assets under management.

Separate Accounts

We manage separate account assets within most of our investment strategies. As of December 31, 2016, we managed 220 separate accounts spanning 142 client relationships and our largest separate account relationship represented approximately 9% of our assets under management. Our separate account clients include both institutional and intermediary channel relationships. We generally require a minimum relationship of $20 million to $100 million, depending on the strategy, to manage a separate account. We also offer access to our Developing World, Global Equity, Global Opportunities, Non-U.S. Growth, U.S. Mid-Cap Growth and Value Equity strategies through Artisan-branded collective investment trusts. The fees we charge our separate accounts vary by client, investment strategy and the size of the account. Fees are accrued monthly, but generally are paid quarterly in arrears.

Artisan Funds and Artisan Global Funds

U.S. investors that do not meet our minimum account size for a separate account, or who otherwise prefer to invest through a mutual fund, can invest in our strategies through Artisan Funds. We serve as the investment adviser to each series of Artisan Funds, SEC-registered mutual funds that offer no-load, no 12b-1 share classes designed to meet the needs of a range of investors. Each series of Artisan Funds corresponds to an investment strategy we offer to clients. In contrast to some mutual funds, investors in Artisan Funds pay no 12b-1 fees, which are fees charged to investors in addition to management fees to pay for marketing, advertising and distribution services associated with the mutual funds. Expenses for marketing, advertising and distribution services related to Artisan Funds, including distribution payments to broker-dealers and other intermediaries, are paid out of the investment management fees we earn. We earn investment management fees, which are based on the average daily net assets of each Artisan Fund and are paid monthly, for serving as investment adviser to these funds.

We also serve as investment manager of Artisan Global Funds, a family of Ireland-based UCITS funds. Artisan Global Funds began operations in the first quarter of 2011 and offers shares to non-U.S. investors. Currently we offer a sub-fund of Artisan Global Funds corresponding to five of our investment strategies. Expenses for marketing, advertising and distribution services related to Artisan Global Funds, including payments to broker-dealers and other intermediaries, are paid out of the investment management fees we earn, which are based on the average daily net assets of each sub-fund and are generally paid monthly.

Regulatory Environment and Compliance

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

SEC Regulation

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

As an investment adviser, we have a fiduciary duty to our clients. The SEC has interpreted that duty to impose standards, requirements and limitations on, among other things: trading for proprietary, personal and client accounts;

allocations of investment opportunities among clients; use of soft dollars; execution of transactions; and recommendations to clients. We manage accounts for our clients on a discretionary basis, with authority to buy and sell securities for each portfolio, select broker-dealers to execute trades and negotiate brokerage commission rates. In connection with certain of these transactions, we receive soft dollar credits from broker-dealers that have the effect of reducing certain of our expenses.

All of our soft dollar arrangements are intended to be within the safe harbor provided by Section 28(e) of the Exchange Act. If our ability to use soft dollars were reduced or eliminated as a result of the implementation of statutory amendments or new regulations including regulations imposed by non-U.S. regulators, our operating expenses would increase.

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

For the year ended December 31, 2016, 65% of our revenues were derived from our advisory services to investment companies registered under the 1940 Act, including 63% from our advisory services to Artisan Funds. The 1940 Act imposes significant requirements and limitations on a registered fund, including with respect to its capital structure, investments and transactions. While we exercise broad discretion over the day-to-day management of the business and affairs of Artisan Funds and the investment portfolios of Artisan Funds and the funds we sub-advise, our own operations are subject to oversight and management by each fund's board of directors. Under the 1940 Act, a majority of the directors must not be "interested persons" (sometimes referred to as the "independent director" requirement). The responsibilities of each fund's board include, among other things, approving our investment management agreement with the fund; approving other service providers; determining the method of valuing assets; and monitoring transactions involving affiliates.

Our investment management agreements with these funds may be terminated by the funds on not more than 60 days' notice, and are subject to annual renewal by each fund's board after the initial term of one to two years. The 1940 Act also imposes on the investment adviser to a mutual fund a fiduciary duty with respect to the receipt of the adviser's investment management fees. That fiduciary duty may be enforced by the SEC, by administrative action or by litigation by investors in the fund pursuant to a private right of action. The number of cases brought by investors pursuant to this private right of action has increased in recent years.

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

Artisan Partners Distributors LLC, our SEC-registered broker-dealer subsidiary, is subject to the SEC's Uniform Net Capital Rule, which requires that at least a minimum part of a registered broker-dealer's assets be kept in relatively liquid form. At December 31, 2016, Artisan Partners Distributors LLC had net capital of $121,873, which was $96,873 in excess of its required net capital of $25,000.

ERISA-Related Regulation

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

Non-U.S. Regulation

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

Related to our Industry—We are subject to extensive regulation" and "Risk Factors—Risks Related to our Industry—The regulatory environment in which we operate is subject to continual change, and regulatory developments designed to increase oversight may adversely affect our business."

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Competition

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

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

Our ability to continue to compete effectively will also depend upon our ability to retain our current investment professionals and employees and to attract highly qualified new investment professionals and employees. We compete in all aspects of our business with a large number of investment management firms, commercial banks, broker-dealers, insurance companies and other financial institutions. For additional information concerning the competitive risks that we face, see "Risks Factors—Risks Related to Our Industry—The investment management industry is intensely competitive."

Operations, Systems and Technology

With respect to our equity strategies, we perform most middle- and back-office functions internally, generally using third-party software and technology for functions such as trade confirmation, trade settlement, custodian reconciliations, corporate action processing, performance calculation and client reporting, customized as necessary to support our investment processes and operations. With respect to our High Income strategy, which is currently our only fixed income strategy, we outsource most of the middle- and back-office functions to service providers that we supervise. Artisan Funds and Artisan Global Funds outsource the functions of custodian, transfer agent and portfolio accounting agent to third parties whose services to Artisan Funds or Artisan Global Funds we supervise. We also have back-up and disaster recovery systems in place.

Employees

As of December 31, 2016, we employed approximately 380 full-time and part-time employees. None of our employees is subject to collective bargaining agreements. We consider our relationship with our employees to be good and have not experienced interruptions of operations due to labor disagreements.

Our Structure and Reorganization

Holding Company Structure

We are a holding company and our assets principally consist of our ownership of partnership units of Artisan Partners Holdings, deferred tax assets and cash. As the sole general partner of Artisan Partners Holdings, we operate and control all of its business and affairs, subject to certain voting rights of its limited partners. We conduct all of our business activities through operating subsidiaries of Artisan Partners Holdings. Net profits and net losses are allocated based on the ownership of partnership units of Artisan Partners Holdings. As of December 31, 2016, we owned approximately 57% of Artisan Partners Holdings, and the other 43% was owned by the limited partners of Artisan Partners Holdings.

The historical consolidated financial statements presented and discussed elsewhere in this document are the combined and consolidated results of Artisan Partners Asset Management and Artisan Partners Holdings. Because Artisan Partners Asset Management and Artisan Partners Holdings were under common control at the time of our IPO reorganization in March 2013, Artisan Partners Asset Management's acquisition of control of Artisan Partners Holdings was accounted for as a transaction among entities under common control. Artisan Partners Asset Management has been allocated a part of Artisan Partners Holdings' net income since March 12, 2013, when it became Artisan Partners Holdings' general partner as part of the IPO reorganization discussed below.

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IPO Reorganization

In March 2013, we completed our IPO. In connection with the IPO, we and Artisan Partners Holdings completed a series of reorganization transactions, which we refer to as the IPO Reorganization, in order to reorganize our capital structures in preparation for the IPO. The IPO Reorganization was designed to create a capital structure that preserves our ability to conduct our business through Artisan Partners Holdings, while permitting us to raise additional capital and provide access to liquidity through a public company. Multiple classes of securities at the public company level were necessary to achieve those objectives and maintain a corporate governance structure consistent with that of Artisan Partners Holdings prior to the IPO Reorganization. The IPO Reorganization included, among other changes, the following:

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

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The diagram below depicts our organizational structure as of December 31, 2016:

(1) Our employees to whom we have granted equity have entered into a stockholders agreement with respect to all shares of our common stock they have acquired from us and any shares they may acquire from us in the future, pursuant to which they granted an irrevocable voting proxy to a stockholders committee currently consisting of Eric R. Colson (Chairman and Chief Executive Officer), Charles J. Daley (Chief Financial Officer) and Gregory K. Ramirez (Executive Vice President). The stockholders committee, by vote of a majority of the members, will determine the vote of all of the shares subject to the stockholders agreement. In addition to owning all of the shares of our Class B common stock, our employees owned unvested restricted shares of our Class A common stock representing approximately 8% of our outstanding Class A common stock as of December 31, 2016.

(2) Each share of Class B common stock initially entitles its holder to five votes per share. The stockholders committee holds an irrevocable proxy to vote the shares of our common stock held by the Class B common stockholders.

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

Available Information

Our principal executive offices are located at 875 E. Wisconsin Avenue, Suite 800, Milwaukee, Wisconsin 53202. Our telephone number at this address is (414) 390-6100 and our website address is www.artisanpartners.com. We make available free of charge through our website all of the materials we file or furnish with the SEC as soon as reasonably practicable after we electronically file or furnish such materials with the SEC. Information contained on our website is not part of, nor is it incorporated by reference into, this Form 10-K. The company was incorporated in Wisconsin on March 21, 2011 and converted to a Delaware corporation on October 29, 2012.

The public may read and copy any of the materials we file with the SEC at the SEC’s Public Reference Room at 100 F Street, NE, Washington, DC 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet site that contains reports, proxies and information statements, and other information regarding issuers that file electronically with the SEC at www.sec.gov.

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Item 1A. Risk Factors

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

Risks Related to our Business

The loss of key investment professionals or members of our senior management team could have a material adverse effect on our business. In addition, a substantial portion of our total assets under management is in six of our strategies, several of which are closed to most new investors and client relationships.

We depend on the skills and expertise of our portfolio managers and other investment professionals and our success depends on our ability to retain the key members of our investment teams, who possess substantial experience in investing and have been primarily responsible for the historically strong investment performance we have achieved. Mark L. Yockey is the sole portfolio manager for our largest strategy, the Non-U.S. Growth strategy, which represented $23.5 billion, or 24%, of our assets under management as of December 31, 2016. Charles-Henri Hamker and Andrew J. Euretig are associate portfolio managers of the Non-U.S. Growth strategy. Our Non-U.S. Value strategy, which represented $17.9 billion, or 18%, of our assets under management as of December 31, 2016, is managed by co-managers N. David Samra (lead manager) and Daniel J. O'Keefe. Mr. O'Keefe (lead manager) and Mr. Samra also co-manage our Global Value strategy, which represented $16.1 billion, or 17%, of our assets under management as of December 31, 2016. James D. Hamel, Matthew A. Kamm, Craigh A. Cepukenas and Jason White are portfolio co-managers of our U.S. Mid-Cap Growth (of which Mr. Kamm is lead manager) and Global Opportunities (of which Mr. Hamel is lead manager) strategies, which represented $13.1 billion, or 14%, and $10.5 billion, or 11%, respectively, of our assets under management as of December 31, 2016. The U.S. Mid-Cap Value strategy, of which James C. Kieffer, George O. Sertl and Daniel L. Kane are co-managers, represented $6.7 billion, or 7%, of our assets under management as of December 31, 2016.

Because of the long tenure and stability of our portfolio managers, our clients generally attribute the investment performance we have achieved to these individuals. The departure of a portfolio manager, even for strategies with multiple portfolio managers, could cause clients to withdraw funds from the strategy which would reduce our assets under management, investment management fees and our net income, and these reductions could be material if our assets under management in that strategy and the related revenues were material.

The departure of a portfolio manager also could cause consultants and intermediaries to stop recommending a strategy, and clients to refrain from allocating additional funds to the strategy or delay such additional funds until a sufficient new track record has been established. We also depend on the contributions of our senior management team led by Eric R. Colson, and our senior marketing and client service personnel who have direct contact with our institutional clients and consultants and other key individuals within each of our distribution channels.

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

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

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

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

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

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

With respect to cash compensation, we use a single revenue share arrangement across all of our investment teams. Under the revenue share, each team shares a bonus pool consisting of 25% of the asset-based revenues earned by the strategies managed by the respective team. The revenue share directly links the majority of the investment teams’ cash compensation to long-term growth in revenues, which, over the long-term, we believe is primarily linked to investment performance. The revenue share is objective, predictable, transparent, and equal across teams.

In the future, we expect that performance fees will represent a higher proportion of our total revenues, as some of our new products will use performance fees, while only a few of our separate accounts use performance fees today. We expect to design and implement new or modified compensation arrangements with respect to performance fee revenues. We do not expect that these new or modified compensation arrangements will have a significant impact on any of our existing arrangements, including the revenue share described above. However, the design and implementation of these new arrangements could cause instability within our existing investment teams and/or impact our ability to attract and retain new investment talent. These arrangements could also negatively impact the amount of profits that we recognize with respect to performance fee revenues, as compared to the asset-based revenues we earn today.

Over our firm’s history we have used a variety of equity incentives to align the long-term interests of our investment professionals and other senior personnel with the interests of clients, partners and shareholders. Until our IPO in 2013, firm equity awards were in the form or partnership profits interests, which entitled recipients to a percentage of future profits and future appreciation in the value of the firm. Award recipients had the right to cash out their profits interests only after the end of their careers, and 50% of the awards were subject to forfeiture if the recipient left Artisan without notice or was terminated. Prior to the IPO Reorganization, the profits interests were converted into partnership units and, as part of the IPO Reorganization, the 50% forfeiture feature was eliminated and employee-partners were given the right to liquidate 15% of their partnership units during each year that they remained employed with Artisan. At the time of our IPO, the partnership units held by employee-partners represented 53% of the ownership interests in our firm.

After our IPO, our equity incentives have been in the form of APAM restricted stock awards. Initially, 100% of the restricted stock awards were Standard Restricted Shares vesting pro rata over five years from the date of grant. In 2014, as we continued to evolve our equity incentives, we introduced Career Shares, which are restricted stock awards that, in general, remain subject to forfeiture until the recipient’s qualifying retirement from Artisan. Since 2014, approximately 50% of the awards we have made to our senior employees have been Career Shares, and the other 50% Standard Restricted Shares. Unlike our pre-IPO profits interests, the APAM restricted share awards are “full value” awards (as opposed to “option-style” awards) and the Standard Restricted Shares provide recipients with liquidity prior to the end of their careers. The percentage ownership in our firm represented by the newly granted restricted shares each year is less than the percentage ownership represented by the partnership units that employee-partners may exchange and sell each year. Therefore, the amount of our firm owned by employees, including our portfolio managers, is expected to continue to decline.

As we have since our founding, we continue to assess the effectiveness of our compensation and equity structures in aligning the long-term interests of our investment professionals, clients, investors, partners, and shareholders and whether different types of, or modified, awards or structures would enhance incentives for long-term growth and succession planning. We have been exploring alternative equity awards or structures which would be more directly linked to an individual's performance and aligned with long-term interests and generally would be more objective, transparent, long-term-growth oriented and tax efficient than the APAM restricted shares that we use today. The design and implementation of new or modified equity structures is complicated. We will only pursue changes that we believe will improve the alignment between our most important investment talent and our clients, partners, and shareholders.

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

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

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

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

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

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

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

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

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

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

The fees we earn under our investment management agreements are typically based on the market value of our assets under management, and to a much lesser extent based directly on investment performance. Investors in the mutual funds we advise can redeem their investments in those funds at any time without prior notice and our clients may reduce the aggregate amount of assets under management with us with minimal or no notice for any reason, including financial market conditions and the absolute or relative investment performance we achieve for our clients. In addition, the prices of the securities held in the portfolios we manage may decline due to any number of factors beyond our control, including, among others, a declining market, general economic downturn, political uncertainty or acts of terrorism. In connection with the severe market dislocations of 2008 and 2009, for example, the value of our assets under management declined substantially due primarily to the sizeable decline in stock prices worldwide. In the period from June 30, 2008 through March 31, 2009, our assets under management decreased by approximately 43%, primarily as a result of general market conditions. The growth of our assets under management since 2009 benefited from the prolonged bull market in equity securities around the world. That prolonged bull market may increase the likelihood of a severe or prolonged downturn in world-wide equity prices which would directly reduce the value of our assets under management and could also accelerate client redemptions or withdrawals. If any of these factors cause a decline in our assets under management, it would result in lower investment management fees. If our revenues decline without a commensurate reduction in our expenses, our net income will be reduced.

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

Our assets under management increased from $50.9 billion as of December 31, 2006 to $96.8 billion as of December 31, 2016. The absolute measure of our assets under management represents a significant rate of growth that has been and may continue to be difficult to sustain. For instance, between June 30, 2014, and December 31, 2016, our assets under management declined from $112.0 billion to $96.8 billion. The continued long-term growth of our business will depend on, among other things, retaining key investment professionals, attracting and recruiting new investment professionals, maintaining existing investment strategies and selectively developing new, value-added investment strategies. Our business growth will also depend on our success in achieving superior investment performance from our investment strategies, as well as our ability to maintain and extend our distribution capabilities, to deal with changing market conditions, to maintain adequate financial and business controls and to comply with new legal and regulatory requirements arising in response to both the increased sophistication of the investment management industry and the significant market and economic events of the last decade. We may not be able to manage our growing business effectively or be able to sustain the level of long-term growth we have achieved historically.

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

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

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

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

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

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

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

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

As of December 31, 2016, approximately 49% of our assets under management across our investment strategies were invested in strategies that primarily invest in securities of non-U.S. companies. In addition, some of our other strategies also invest on a more limited basis in securities of non-U.S. companies. Approximately 43% of our assets under management were invested in securities denominated in currencies other than the U.S. dollar. Fluctuations in foreign currency exchange rates could negatively affect the returns of our clients who are invested in these strategies. In addition, an increase in the value of the U.S. dollar relative to non-U.S. currencies is likely to result in a decrease in the U.S. dollar value of our assets under management, which, in turn, would likely result in lower revenue and profits. See “Qualitative and Quantitative Disclosures Regarding Market Risk-Exchange Rate Risk” in Item 7A of this report for more information about exchange rate risk.

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

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

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

If our investment strategies perform poorly, we may be forced to lower our fees in order to retain current, and attract additional, assets to manage. We may not succeed in providing the investment returns and service that will allow us to maintain our current fee rates. We may also make fee concessions in order to attract early investors in a strategy or increase marketing momentum in a strategy. Downward pressure on fees may also result from the growth and evolution of the universe of potential investments in a market or asset class. Changes in how clients choose to access asset management services may also exert downward pressure on fees. Some investment consultants, for example, have implemented programs in which the consultant provides a range of services, including selection, in a fiduciary capacity, of asset managers to serve as sub-adviser at lower fee rates than the manager’s otherwise applicable rates, with the expectation of a larger amount of assets under management through that consultant. The expansion of those and similar programs could, over time, make it more difficult for us to maintain our fee rates. Over time, a larger part of our assets under management could be invested in our larger capacity, lower fee strategies, which could adversely affect our profitability. In addition, plan sponsors of 401(k) and other defined contribution assets that we manage may choose to invest plan assets in vehicles with lower cost structures than mutual funds (such as a collective investment trust, if one is available) or may choose to access our services through a separate account. We provide a lesser array of services to collective investment trusts and separate accounts than we provide to Artisan Funds and we receive fees at lower rates.

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

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

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

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

Investors in the mutual funds and some other pooled investment vehicles that we advise or sub-advise may redeem their investments in those funds at any time without prior notice and investors in other types of pooled vehicles we sub-advise may typically redeem their investments on fairly limited or no prior notice, thereby reducing our assets under management. These investors may redeem for any number of reasons, including general financial market conditions, the absolute or relative investment performance we have achieved, or their own financial condition and requirements. In a declining stock market, the pace of redemptions could accelerate. Poor investment performance relative to other funds tends to result in decreased purchases and increased redemptions of fund shares. For the year ended December 31, 2016, we generated approximately 80% of our revenues from advising mutual funds and other pooled vehicles (including Artisan Funds, Artisan Global Funds, and other entities for which we are adviser or sub-adviser), and the redemption of investments in those funds would adversely affect our revenues and could have a material adverse effect on our earnings.

We depend on third parties to market our investment strategies.

Our ability to attract additional assets to manage is highly dependent on our access to third-party intermediaries. We gain access to investors in Artisan Funds primarily through consultants, 401(k) platforms, mutual fund platforms, broker-dealers and financial advisors through which shares of the funds are sold. We have relationships with some third-party intermediaries through which we access clients in multiple distribution channels. Our two largest relationships across multiple distribution channels represented approximately 10% and 8% of our total assets under management as of December 31, 2016.

We compensate most of the intermediaries through which we gain access to investors in Artisan Funds by paying fees, most of which are a percentage of assets invested in Artisan Funds through that intermediary and with respect to which that intermediary provides shareholder and administrative services. The allocation of such fees between us and Artisan Funds is determined by the board of Artisan Funds, based on information and a recommendation from us, with the goal of allocating to us all costs attributable to marketing and distribution of shares of Artisan Funds. In the third quarter of 2014, the portion of those fees allocated to us was increased, which increased our expenses.

In the future, our expenses in connection with those intermediary relationships could further increase if the portion of those fees determined to be in connection with marketing and distribution, or otherwise allocated to us, increased. Clients of these intermediaries may not continue to be accessible to us on terms we consider commercially reasonable, or at all. The absence of such access could have a material adverse effect on our results of operations.

We access institutional clients primarily through consultants. Our institutional business is highly dependent upon referrals from consultants. Many of these consultants review and evaluate our products and our firm from time to time. As of December 31, 2016, the investment consultant advising the largest portion of our assets under management represented approximately 9% of our total assets under management. Poor reviews or evaluations of either a particular strategy or us as an investment management firm may result in client withdrawals or may impair our ability to attract new assets through these intermediaries.

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

Twelve of our 13 existing investment strategies invest primarily in long positions in publicly-traded equity securities. Our High Income strategy, which accounted for only $1.9 billion of our $96.8 billion in total assets under management as of December 31, 2016, invests in fixed income securities. Under market conditions in which there is a general decline in the value of equity securities, the assets under management in each of our 12 equity strategies is likely to decline. Unlike some of our competitors, we do not currently offer strategies that invest in privately-held companies or take short positions in equity securities, which could offset some of the poor performance of our long-only, equity strategies under such market conditions. Even if our investment performance remains strong during such market conditions relative to other long-only, equity strategies, investors may choose to withdraw assets from our management or allocate a larger portion of their assets to non-long-only or non-equity strategies. In addition, the prices of equity securities may fluctuate more widely than the prices of other types of securities, making the level of our assets under management and related revenues more volatile.

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

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

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

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

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

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

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

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

We are heavily reliant upon internal and third party technology systems and networks to view, process, transmit and store information, including sensitive client and proprietary information, and to conduct many of our business activities and transactions with our clients, vendors/service providers (collectively, “vendors”) and other third parties. Maintaining the integrity of these systems and networks is critical to the success of our business operations and to the protection of our proprietary information and our clients’ information. We rely on our (and our vendors’) information and cybersecurity infrastructure, policies, procedures and capabilities to protect those systems and the data that reside on or are transmitted through them.

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

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

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

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

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

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New investment strategies and investment vehicles that we launch in the future will likely present new and different investment, regulatory, operational, distribution and other risks than those presented by our existing equity strategies and the High Income strategy. New strategies may invest in instruments (such as complex derivatives) with which we have no or limited experience or create portfolios that present new or different risks, such as risks associated with concentration and leverage. The most appropriate and marketable vehicle for certain new strategies will be private funds, which will present new and different regulatory, operational and distribution-related risks. Any real or perceived problems with future strategies or vehicles could cause a disproportionate negative impact on our business and reputation.

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

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

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

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

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

Our indebtedness may expose us to material risks.

In August 2012, we entered into a $100 million five-year revolving credit agreement and issued $200 million in unsecured notes consisting of $60 million Series A notes maturing in 2017, $50 million Series B notes maturing in 2019, and $90 million Series C notes maturing in 2022. As of December 31, 2016, no amounts were outstanding on the revolving credit facility. Nevertheless, we continue to have substantial indebtedness outstanding in the amount of $200 million in unsecured notes, which exposes us to risks associated with the use of leverage. Our substantial indebtedness may make it more difficult for us to withstand or respond to adverse or changing business, regulatory and economic conditions or to take advantage of new business opportunities or make necessary capital expenditures. In addition, our notes and revolving credit agreement contain financial and operating covenants that may limit our ability to conduct our business. To the extent we service our debt from our cash flow, such cash will not be available for our operations or other purposes. Because our debt service obligations are fixed, the portion of our cash flow used to service those obligations could be substantial if our revenues have declined, whether because of market declines or for other reasons. The Series A, Series B and Series C notes bear interest at a rate equal to 4.98%, 5.32% and 5.82% per annum, respectively, and each rate is subject to a 100 basis point increase in the event Artisan Partners Holdings receives a below-investment grade rating. Each series requires a balloon payment at maturity. Any substantial decrease in net operating cash flows or any substantial increase in expenses could make it difficult for us to meet our debt service requirements or force us to modify our operations. Our ability to repay the principal amount of our notes or any outstanding loans under our revolving credit agreement, to refinance our debt or to obtain additional financing through debt or the sale of additional equity securities will depend on our performance, as well as financial, business and other general economic factors affecting the credit and equity markets generally or our business in particular, many of which are beyond our control. Any such alternatives may not be available to us on satisfactory terms or at all.

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

Our note purchase agreement and revolving credit agreement contain financial and operating covenants that limit our business activities, including restrictions on our ability to incur additional indebtedness and pay dividends to our stockholders. For example, the agreements include financial covenants requiring Artisan Partners Holdings not to exceed specified ratios of indebtedness to consolidated earnings before interest, taxes, depreciation and amortization (as defined in the agreements), or

EBITDA, and interest expense to consolidated EBITDA. The agreements also restrict Artisan Partners Holdings from making distributions to its partners (including us), other than tax distributions or distributions to fund our ordinary expenses, if a default (as defined in the respective agreements) has occurred and is continuing or would result from such a distribution. The failure to comply with any of these restrictions could result in an event of default, giving our lenders the ability to accelerate repayment of our obligations. As of December 31, 2016, we believe we are in compliance with all of the covenants and other requirements set forth in the agreements.

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

We provide a broad range of administrative services to Artisan Funds, including providing personnel to Artisan Funds to serve as a director and as officers of Artisan Funds and to serve on the valuation committee of Artisan Funds, the preparation or supervision of the preparation of Artisan Funds' regulatory filings, maintenance of board calendars and preparation or supervision of the preparation of board meeting materials, management of compliance and regulatory matters, provision of shareholder services and communications, accounting services including the supervision of the activities of Artisan Funds' accounting services provider in the calculation of the funds' net asset values, supervision of the preparation of Artisan Funds' financial statements and coordination of the audits of those financial statements, tax services including calculation of dividend and distribution amounts and supervision of tax return preparation, and supervision of the work of Artisan Funds' other service providers. Although less extensive than the range of services we provide to Artisan Funds, we also provide a range of similar services, in addition to investment management services, to Artisan Global Funds, including personnel to serve as directors.

In addition, we from time to time provide information to the funds for which we act as sub-adviser (or to a person or entity providing administrative services to such a fund) which is used by those funds in their efforts to comply with various regulatory requirements. If we make a mistake in the provision of those services, Artisan Funds, Artisan Global Funds or the sub-advised fund could incur costs for which we might be liable. In addition, if it were determined that Artisan Funds, Artisan Global Funds or a sub-advised fund failed to comply with applicable regulatory requirements as a result of action or failure to act by our employees, we could be responsible for losses suffered or penalties imposed. In addition, we could have penalties imposed on us, be required to pay fines or be subject to private litigation, any of which could decrease our future income or negatively affect our current business or our future growth prospects.

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

We have expanded and continue to expand our distribution efforts into non-U.S. markets, including the United Kingdom, other European countries, Canada, Australia and certain Asian countries, among others. We organized and serve as investment manager of Artisan Global Funds, a family of Ireland-based UCITS funds, that began operations during the first quarter of 2011. Our client relationships outside the United States have grown from approximately 30 as of December 31, 2012 to approximately 104 as of December 31, 2016. Clients outside the United States may be adversely affected by political, social and economic uncertainty in their respective home countries and regions, which could result in a decrease in the net client cash flows that come from such clients. These clients also may be less accepting of the U.S. practice of payment for certain research products and services through soft dollars or such practices may not be permissible in some jurisdictions, which could have the effect of increasing our expenses.

This expansion has required and will continue to require us to incur a number of up-front expenses, including those associated with obtaining and maintaining regulatory approvals and office space, as well as additional ongoing expenses, including those associated with leases, the employment of additional support staff and regulatory compliance. Our U.S.-based employees routinely travel outside the United States as a part of our investment research process or to market our services and may spend extended periods of time in one or more non-U.S. jurisdictions. Their activities outside the United States on our behalf may raise both tax and regulatory issues. If and to the extent we are incorrect in our analysis of the applicability or impact of non-U.S. tax or regulatory requirements, we could incur costs, penalties or be the subject of an enforcement or other action. Operating our business in non-U.S. markets is generally more expensive than in the United States. Among other expenses, the effective tax rates applicable to our income allocated to some non-U.S. markets, which we are likely to earn through an entity that will pay corporate income tax, may be higher than the effective rates applicable to our income allocated to the United States, even though the effective tax rates are lower in many non-U.S. markets, because our U.S. operations are conducted through partnerships. In addition, costs related to our distribution and marketing efforts in non-U.S. markets generally have been more expensive than comparable costs in the United States. To the extent that our revenues do not increase to the same degree our expenses increase in connection with our continuing expansion outside the United States, our profitability could be adversely affected. Expanding our business into non-U.S. markets may also place significant demands on our existing infrastructure and employees.

The United Kingdom's exit from the European Union could affect our future operations in the United Kingdom and in the other countries of the European Union. The ultimate impact of Brexit on our business operations will depend on the outcome of the exit negotiations.

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

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

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

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

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

Risks Related to our Industry

We are subject to extensive regulation.

We are subject to extensive regulation in the United States, primarily at the federal level, including regulation by the SEC under the 1940 Act and the Advisers Act, by the U.S. Department of Labor under ERISA, and by the Financial Industry Regulatory Authority, Inc. The U.S. mutual funds we manage are registered with and regulated by the SEC as investment companies under the 1940 Act. We are also subject to regulation in the United Kingdom by the Financial Conduct Authority. The U.K. Financial Conduct Authority imposes a comprehensive system of regulation that is primarily principles-based (compared to the primarily rules-based U.S. regulatory system). The Advisers Act imposes numerous obligations on investment advisers including record keeping, advertising and operating requirements, disclosure obligations and prohibitions on fraudulent activities. The 1940 Act imposes similar obligations, as well as additional detailed operational requirements, on registered investment companies, which must be adhered to by their investment advisers. We have also expanded and continue to expand our distribution effort into non-U.S. markets, including the United Kingdom, other European countries, Canada, Australia and certain Asian countries, among others. The Central Bank of Ireland imposes requirements on UCITS funds subject to regulation by it, as do the regulators in certain other markets in which shares of Artisan Global Funds are offered for sale, and with which we are required to comply with respect to Artisan Global Funds. In the future, we may further expand our business outside of the United States in such a way or to such an extent that we may be required to register with additional foreign regulatory agencies or otherwise comply with additional non-U.S. laws and regulations that do not currently apply to us and with respect to which we do not have compliance experience. Our lack of experience in complying with any such non-U.S. laws and regulations may increase our risk of becoming party to litigation and subject to regulatory actions.

Accordingly, we face the risk of significant intervention by regulatory authorities, including extended investigation and surveillance activity, adoption of costly or restrictive new regulations and judicial or administrative proceedings that may result in substantial penalties. Among other things, we could be fined or be prohibited from engaging in some of our business activities. The requirements imposed by our regulators are designed to ensure the integrity of the financial markets and to protect customers and other third parties who deal with us, and are not designed to protect our stockholders. Consequently, these regulations often serve to limit our activities, including through net capital, customer protection and market conduct requirements. See “Regulatory Environment and Compliance”.

In addition to the extensive regulation to which we are subject in the United States, the United Kingdom and Ireland, we are also subject to regulation by the Australian Securities and Investments Commission, where we operate pursuant to an order of exemption, and by Canadian regulatory authorities in the Canadian provinces where we operate pursuant to exemptions from registration. Our business is also subject to the rules and regulations of the countries in which we conduct investment management activities. Failure to comply with applicable laws and regulations in the foreign countries where we invest and/or where our clients or prospective clients reside could result in fines, suspensions of personnel or other sanctions. See “Regulatory Environment and Compliance”.

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

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

The requirements imposed by our regulators (including both U.S. and non-U.S. regulators) are designed to ensure the integrity of the financial markets and to protect customers and other third parties who deal with us, and are not designed to protect our stockholders. Consequently, these regulations often serve to limit our activities and/or increase our costs, including through customer protection and market conduct requirements. New laws or regulations, or changes in the enforcement of existing laws or regulations, applicable to us and our clients may adversely affect our business. Our ability to function in this environment will depend on our ability to constantly monitor and promptly react to legislative and regulatory changes. There have been a number of highly publicized regulatory inquiries that have focused on the investment management industry. These inquiries already have resulted in increased scrutiny of the industry and new rules and regulations for mutual funds and investment managers. This regulatory scrutiny may limit our ability to engage in certain activities that might be beneficial to our stockholders. See “Regulatory Environment and Compliance”.

The investment management industry is intensely competitive.

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

- Unlike some of our competitors, we do not currently offer passive investment strategies or alternative investment strategies, nor do we offer “solutions” products like target-date funds.
- A number of our competitors have greater financial, technical, marketing and other resources, more comprehensive name recognition and more personnel than we do.
- Potential competitors have a relatively low cost of entering the investment management industry.
- Some investors may prefer to invest with an investment manager that is not publicly traded based on the perception that a publicly-traded asset manager may focus on the manager’s own growth to the detriment of investment performance for clients.
- Other industry participants, hedge funds and alternative asset managers may seek to recruit our investment professionals.
- Some competitors charge lower fees for their investment management services than we do.

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

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

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

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

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Risks Related to Our Structure

Control by our stockholders committee of approximately 59% of the combined voting power of our capital stock and the rights of holders of limited partnership units of Artisan Partners Holdings may give rise to conflicts of interest.

Our employees to whom we have granted equity (including our employee-partners) hold approximately 59% of the combined voting power of our capital stock and have entered into a stockholders agreement pursuant to which they granted an irrevocable voting proxy with respect to all shares of our common stock they have acquired from us and any shares they may acquire from us in the future to a stockholders committee. Any additional shares of our common stock that we issue to our employee-partners or other employees, including shares of common stock issued under our Omnibus Incentive Compensation Plan, will be subject to the stockholders agreement so long as the agreement has not been terminated. Shares held by an employee cease to be subject to the stockholders agreement upon termination of employment.

The stockholders committee has the ability to determine the outcome of any matter requiring the approval of a simple majority of our outstanding voting stock and prevent the approval of any matter requiring the approval of 66 2/3% of our outstanding voting stock. For so long as the shares subject to the stockholders agreement represent at least a majority of the combined voting power of our capital stock, the stockholders committee is able to elect all of the members of our board of directors (subject to the obligation of the stockholders committee under the terms of the stockholders agreement to vote in support of certain nominees) and will thereby control our management and affairs, including determinations with respect to acquisitions, dispositions, borrowings, issuances of securities, and the declaration and payment of dividends. In addition, subject to the class approval rights of each class of our outstanding capital stock and each class of Artisan Partners Holdings limited partnership units, the stockholders committee is able to determine the outcome of all matters requiring approval by a majority of stockholders, and is able to cause or prevent a change of control of our company or a change in the composition of our board of directors, and could preclude any unsolicited acquisition of our company. The stockholders committee has the ability to prevent the consummation of mergers, takeovers or other transactions that may be in the best interests of our Class A stockholders.

In particular, this concentration of voting power could deprive Class A stockholders of an opportunity to receive a premium for their shares of Class A common stock as part of a sale of our company, and could affect the market price of our Class A common stock. Because each share of our Class B common stock initially entitles its holder to five votes, the stockholders committee possesses the power and control described above even though the shares subject to the stockholders agreement represent less than a majority of the number of outstanding shares of our capital stock. If and when the holders of our Class B common stock collectively hold less than 20% of the aggregate number of outstanding shares of our capital stock, shares of Class B common stock will entitle the holder to only one vote per share.

The stockholders committee currently consists of Eric R. Colson (Chairman and Chief Executive Officer), Charles J. Daley, Jr. (Chief Financial Officer) and Gregory K. Ramirez (Executive Vice President). All shares subject to the stockholders agreement are voted in accordance with the majority decision of those three members.

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

In addition, because our pre-IPO owners (including members of our board of directors) hold all or a portion of their ownership interests in our business through Artisan Partners Holdings, rather than through Artisan Partners Asset Management, these pre-IPO owners may have conflicting interests with holders of our Class A common stock. For example, our pre-IPO owners may have different tax positions from us which could influence their decisions regarding whether and when we should dispose of assets, whether and when we should incur new or refinance existing indebtedness, especially in light of the existence of the tax receivable agreements, and whether and when Artisan

Partners Asset Management should terminate the tax receivable agreements and accelerate its obligations thereunder. In addition, the structuring of future transactions may take into consideration these pre-IPO owners' tax or other considerations even where no similar benefit would accrue to us.

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

We intend to pay dividends to holders of our Class A common stock as described in "Dividend Policy". Our board of directors may, in its sole discretion, change the amount or frequency of dividends or discontinue the payment of dividends entirely. In addition, as a holding company, we are dependent upon the ability of our subsidiaries to generate earnings and cash flows and distribute them to us so that we may pay dividends to our stockholders. We expect to cause Artisan Partners Holdings, which is a Delaware limited partnership, to make distributions to its partners, including us, in an amount sufficient for us to pay dividends. However, its ability to make such distributions will be subject to its and its subsidiaries' operating results, cash requirements and financial condition, the applicable provisions of Delaware law that may limit the amount of funds available for distribution to its partners, its compliance with covenants and financial ratios related to existing or future indebtedness, including under our notes

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and our revolving credit agreement, its other agreements with third parties, as well as its obligation to make tax distributions under its partnership agreement (which distributions would reduce the cash available for distributions by Artisan Partners Holdings to us). In addition, each of the companies in our corporate chain must manage its assets, liabilities and working capital in order to meet all of its cash obligations, including the payment of dividends or distributions. As a consequence of these various limitations and restrictions, we may not be able to make, or may have to reduce or eliminate, the payment of dividends on our Class A common stock. Any change in the level of our dividends or the suspension of the payment thereof could adversely affect the market price of our Class A common stock.

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

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

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

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

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

The payment obligation under the tax receivable agreements is an obligation of APAM, not Artisan Partners Holdings, and we expect that the payments we will be required to make under the tax receivable agreements will be substantial. Assuming no material changes in the relevant tax law and that APAM earns sufficient taxable income to realize all tax benefits that are subject to the tax receivable agreements, we expect that the reduction in tax payments for us associated with (i) the merger described above; (ii) the purchase or exchange of partnership units from March 2013 through December 31, 2016; and (iii) future purchases or exchanges of partnership units would aggregate to approximately $1.2 billion over generally a minimum of 15 years, assuming the future purchases or exchanges described in clause (iii) occurred at a price of $29.75 per share of our Class A common stock, the closing price of our Class A common stock on December 30, 2016. Under such scenario we would be required to pay the other parties to the tax receivable agreements 85% of such amount, or approximately $1.1 billion, over generally a minimum of 15 years. The actual amounts may materially differ from these hypothetical amounts, as potential future reductions in tax payments for us and tax receivable agreement payments by us will be calculated using the market value of our Class A common stock at the time of purchase or exchange and the prevailing tax rates applicable to us over the life of the tax receivable agreements and will be dependent on us generating sufficient future taxable income to realize the benefit. As of December 31, 2016, we recorded a $586.2 million liability, representing amounts payable under the tax receivable agreements equal to 85% of the tax benefit we expected to realize from the H&F Corp merger described above, our purchase of partnership units from limited partners of Holdings and the exchange of partnership units from March 2013 through December 31, 2016, assuming no material changes in the related tax law and that APAM earns sufficient taxable income to realize all tax benefits subject to the tax receivable agreements. The liability will increase upon future purchases or exchanges of limited partnership units with the increase representing amounts payable under the tax receivable agreements equal to 85% of the estimated future tax benefits, if any, resulting from such purchases or exchanges. Payments under the tax receivable agreements are not conditioned on the counterparties' continued ownership of us.

The actual increase in tax basis, as well as the amount and timing of any payments under these agreements, will vary depending upon a number of factors, including the timing of sales or exchanges by the holders of limited partnership units, the price of the Class A common stock at the time of such sales or exchanges, whether such sales or exchanges are taxable, the amount and timing of the taxable income APAM generates in the future and the tax rate then applicable and the portion of APAM's payments under the tax receivable agreements constituting imputed interest or depreciable basis or amortizable basis. Payments under the tax receivable agreements are expected to give rise to certain additional tax benefits attributable to either further increases in basis or in the form of deductions for imputed interest, depending on the tax receivable agreement and the circumstances. Any such benefits are covered by the tax receivable agreements and will increase the amounts due thereunder. In addition, the tax receivable agreements provide for interest, at a rate equal to one-year LIBOR plus 100 basis points, accrued from the due date (without extensions) of the corresponding APAM tax return to the actual payment date, provided that the actual payment date is on or before the payment due date, as specified in the tax receivable agreements. In addition, to the extent that we are unable to make payments when due under the tax receivable agreements for any reason, such payments will be deferred and will accrue interest at a rate equal to one-year LIBOR plus 300 basis points until paid.

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

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

The tax receivable agreements provide that (i) upon certain mergers, asset sales, other forms of business combinations or other changes of control, (ii) in the event that we materially breach any of our material obligations under the agreements, whether as a result of failure to make any payment within six months of when due (provided we have sufficient funds to make such payment), failure to honor any other material obligation required thereunder or by operation of law as a result of the rejection of the agreements in a bankruptcy or otherwise, or (iii) if, at any time, we elect an early termination of the agreements, our (or our successor's) obligations under the agreements (with respect to all units, whether or not units have been exchanged or acquired before or after such transaction) would be based on certain assumptions. In the case of a material breach or if we elect early termination, those assumptions include that we would have sufficient taxable income to fully utilize the deductions arising from the increased tax deductions and tax basis and other benefits related to entering into the tax receivable agreements. In the case of a change of control, the assumptions include that in each taxable year ending on or after the closing date of the change of control, our taxable income (prior to the application of the tax deductions and tax basis and other benefits related to entering into the tax receivable agreements) will equal the greater of (i) the actual taxable income (prior to the application of the tax deductions and tax basis and other benefits related to entering into the tax receivable agreements) for the taxable year and (ii) the highest taxable income (calculated without taking into account extraordinary items of income or deduction and prior to the application of the tax deductions and tax basis and other benefits related to entering into the tax receivable agreements) in any of the four fiscal quarters ended prior to the closing date of the change of control, annualized and increased by 10% for each taxable year beginning with the second taxable year following the closing date of the change of control. In the event we elect to terminate the agreements early or we materially breach a material obligation, our obligations under the agreements will accelerate. As a result, (i) we could be required to make payments under the tax receivable agreements that are greater than or less than the specified percentage of the actual benefits we realize in respect of the tax attributes subject to the agreements and (ii) if we materially breach a material obligation under the agreements or if we elect to terminate the agreements early, we would be required to make an immediate payment equal to the present value of the anticipated future tax benefits, which payment may be made significantly in advance of the actual realization of such future benefits. In these situations, our obligations under the tax receivable agreements could have a substantial negative impact on our liquidity and could have the effect of delaying, deferring or preventing certain mergers, asset sales, other forms of business combinations or other changes of control. There can be no assurance that we will be able to finance our obligations under the tax receivable agreements. If we were to elect to terminate the tax receivable agreements as of December 31, 2016, based on an assumed discount rate equal to one-year LIBOR plus 100 basis points, we estimate that we would be required to pay approximately $0.9 billion in the aggregate under the tax receivable agreements.

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

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

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

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

Risks Related to Our Class A Common Stock

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

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

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

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

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

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

We are party to a resale and registration rights agreement pursuant to which the shares of our Class A common stock issued upon exchange of limited partnership units are eligible for resale. Such shares of Class A common stock may be transferred only in accordance with the terms and conditions of the resale and registration rights agreement. The common units of Artisan Partners Holdings discussed below are exchangeable for shares of our Class A common stock on a one-for-one basis.

There is no limit on the number of shares of our Class A common stock that our Class A limited partners or AIC are permitted to sell. As of December 31, 2016, our Class A limited partners owned approximately 7.9 million Class A common units and AIC owned approximately 7.0 million Class D common units.

For an employee-partner, in each one-year period, the first of which began in the first quarter of 2014, the partner is generally permitted to sell up to (i) a number of vested shares of our Class A common stock representing 15% of the aggregate number of common units and shares of Class A common stock received upon exchange of common units (in each case, whether vested or unvested) he or she held as of the first day of that period or, (ii) if greater, vested shares of our Class A common stock having a market value as of the time of sale of $250,000, as well as, in either case, the number of shares such holder could have sold in any previous period or periods but did not sell in such period or periods. As of December 31, 2016, our employee-partners owned 15.1 million Class B common units. Approximately 3.6 million of those units are eligible for exchange and sale in the first quarter of 2017. We may waive or modify these restrictions.

In addition, we have filed a registration statement registering 15,000,000 shares of our Class A common stock for issuance pursuant to our 2013 Omnibus Incentive Compensation Plan and 2013 Non-Employee Director Plan. We have awarded 6,070,187 restricted stock units or restricted shares of Class A common stock to our employees and employees of our subsidiaries. 4,006,924 of these awards vest pro rata over the five years from the date of issuance and may be sold upon vesting. 2,063,263 of these awards are career shares or restricted stock units, which generally will only vest upon the grantee’s qualifying retirement. We may increase the number of shares registered for this purpose from time to time. Once these shares have been issued and have vested, they will be able to be sold in the public market.

We may also purchase limited partnerships units of Holdings at any time and may issue and sell additional shares of our Class A common stock to fund such purchases. We cannot predict the size of future issuances of our Class A common stock or the effect, if any, that future issuances and sales of shares of our Class A common stock may have on the market price of our Class A common stock. Sales or distributions of substantial amounts of our Class A common stock (including shares issued in connection with an acquisition), or the perception that such sales could occur, may cause the market price of our Class A common stock to decline.

The disparity in the voting rights among the classes of our capital stock may have a potential adverse effect on the price of our Class A common stock.

Each share of our Class A common stock and Class C common stock entitles its holder to one vote on all matters to be voted on by stockholders generally, while each share of our Class B common stock entitles its holder to five votes on all matters to be voted on by stockholders generally for so long as the holders of our Class B common stock collectively hold at least 20% of the number of outstanding shares of our capital stock. The difference in voting rights could adversely affect the value of our Class A common stock by, for example, delaying or deferring a change of control.

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

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

- The disparity in the voting rights among the classes of our capital stock.
- The right of the various classes of our capital stock to vote, as separate classes, on certain amendments to our restated certificate of incorporation and certain fundamental transactions.

- The ability of our board of directors to determine to issue shares of preferred stock and to determine the price and other terms of those shares, which could be used to thwart a takeover attempt.
- Advance notice procedures that stockholders must comply with in order to nominate candidates to our board of directors or to propose matters to be acted upon at a stockholders' meeting, which may discourage or deter a potential acquiror from conducting a solicitation of proxies to elect the acquiror's own slate of directors or otherwise attempting to obtain control of us.
- A limitation that, generally, stockholder action may only be taken at an annual or special meeting or by unanimous written consent.

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- A requirement that a special meeting of stockholders may be called only by our board of directors or our Chairman and Chief Executive Officer, which may delay the ability of our stockholders to force consideration of a proposal or to take action, including the removal of directors.
- The ability of our board of directors to adopt, amend and repeal our amended and restated bylaws by majority vote, while such action by stockholders would require a super majority vote, which makes it more difficult for stockholders to change certain provisions described above.

The market price of our Class A common stock could be adversely affected to the extent that the provisions of our restated certificate of incorporation and amended and restated bylaws discourage potential takeover attempts that our stockholders may favor.

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

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

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

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

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

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

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

If securities or industry analysts do not publish research or publish inaccurate or unfavorable research about our business or our industry, our stock price and trading volume could decline.
The trading market for our Class A common stock depends in part on the research and reports that securities or industry analysts publish about us or our business, or about the investment management industry generally. If one or more of the analysts who cover us downgrades our stock or publishes unfavorable research about our business or about the investment management industry, our stock price would likely decline. If one or more of these analysts ceases coverage of us or fails to publish reports on us regularly, demand for our stock could decrease, which could cause our stock price and trading volume to decline.

Item 1B. Unresolved Staff Comments

None

Item 2. Properties

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

Item 3. Legal Proceedings

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

Item 4. Mine Safety Disclosures

Not applicable

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PART II

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

Shares of our Class A common stock have been listed and traded on the NYSE under the symbol “APAM” since March 7, 2013. The following table sets forth, for the periods indicated, the high and low intra-day sale prices in dollars on the NYSE for our Class A common stock and the dividends per share of Class A common stock we declared during the periods indicated.

	High	Low	Dividends Declared
For the quarter ended March 31, 2015	$50.93	$44.34	$ 1.55
For the quarter ended June 30, 2015	$48.15	$43.05	$ 0.60
For the quarter ended September 30, 2015	$48.39	$34.57	$ 0.60
For the quarter ended December 31, 2015	$40.62	$33.24	$ 0.60
For the quarter ended March 31, 2016	$35.54	$23.65	$ 1.00
For the quarter ended June 30, 2016	$35.00	$26.14	$ 0.60
For the quarter ended September 30, 2016	$29.45	$25.41	$ 0.60
For the quarter ended December 31, 2016	$32.20	$24.48	$ 0.60

There is no trading market for shares of our Class B common stock or Class C common stock.

On December 31, 2016, the last reported sale price for our Class A common stock on the NYSE was $29.75 per share.

As of February 16, 2017, there were approximately 114 stockholders of record of our Class A common stock, 41 stockholders of record of our Class B common stock, and 34 stockholders of record of our Class C common stock. These figures do not reflect the beneficial ownership or shares held in nominee name, nor do they include holders of any restricted stock units.

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Performance Graph

The following graph compares the year-end cumulative total stockholder return on our Class A common stock from the date the shares began trading on the NYSE on March 7, 2013 to December 31, 2016, with the year-end cumulative total return of the S&P 500® and the Dow Jones U.S. Asset Managers Index. The graph assumes the investment of $100 in our common stock and in the market indices on March 7, 2013 and the reinvestment of all dividends.

	3/7/2013	12/31/2013	12/31/2014	12/31/2015	12/31/2016
Artisan Partners Asset Management, Inc.	$100.00	$188.06	$141.46	$108.85	$99.63
S&P 500 Index	$100.00	$121.75	$138.42	$140.33	$157.11
Dow Jones U.S. Asset Managers Index	$100.00	$124.20	$133.86	$117.85	$178.07

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

Dividend Policy

Subject to board approval each quarter, we expect to pay a quarterly dividend during 2017. 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. During the first quarter of 2017, our board of directors declared a quarterly dividend of $0.60 per share of Class A common stock and a special annual dividend of $0.36 per share. Although we expect to pay dividends according to our dividend policy, we may not pay dividends according to our policy or at all. We intend to fund dividends from our portion of distributions made by Artisan Partners Holdings from its available cash generated from operations. The holders of our Class B common stock and Class C common stock are not entitled to any cash dividends in their capacity as stockholders, but, in their capacity as holders of limited partnership units of Artisan Partners Holdings, they generally participate on a pro rata basis in distributions by Artisan Partners Holdings.

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

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

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

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

Artisan Partners Holdings' Distributions

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

	For the Years Ended December 31,	
	2016	2015
	(in millions)	
For the quarter ended March 31	$ 41.7	$ 79.4
For the quarter ended June 30	$ 93.9	$ 109.2
For the quarter ended September 30	$ 72.5	$ 81.1
For the quarter ending December 31	$ 86.3	$ 99.2

Unregistered Sales of Equity Securities

As described in Note 7, "Stockholders' Equity", to the Consolidated Financial Statements included in Item 8 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 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. During the three months ended December 31, 2016, 1,504,908 shares of Class B common stock were canceled, and 1,413,525 shares of Class C common stock were issued, as a result of the termination of employment of employee-partners.

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Securities Authorized for Issuance Under Equity Compensation Plans

The following table sets forth the total shares of our Class A common stock authorized and issued (or to be issued) under our equity compensation plans as of December 31, 2016:

	As of December 31, 2016		
	Issued (or to be issued) upon settlement of restricted stock units[1]	Number of Securities remaining available for future issuance under equity compensation plans	Equity Type
2013 Omnibus Incentive Compensation Plan	4,736,410	9,263,590	Restricted Share Awards Restricted Stock Units
2013 Non-Employee Director Plan	82,504	917,496	Restricted Stock Units

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

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

Item 6. Selected Financial Data

The following tables set forth selected historical consolidated financial data of Artisan Partners Asset Management as of the dates and for the periods indicated. The selected consolidated statements of operations data for the years ended December 31, 2016, 2015 and 2014 and the selected consolidated statements of financial condition data as of December 31, 2016 and 2015 have been derived from our audited consolidated financial statements included elsewhere in this document. The selected consolidated statements of operations data for the years ended December 31, 2013 and 2012 and the consolidated statement of financial condition as of December 31, 2014, 2013 and 2012 have been derived from consolidated financial statements not included elsewhere in this document. The historical consolidated financial statements are the combined results of Artisan Partners Asset Management and Artisan Partners Holdings. Because Artisan Partners Asset Management and Artisan Partners Holdings were under common control at the time of the IPO Reorganization, Artisan Partners Asset Management's acquisition of control of Artisan Partners Holdings was accounted for as a transaction among entities under common control. Artisan Partners Asset Management has been allocated a part of Artisan Partners Holdings' net income since March 12, 2013, when it became Artisan Partners Holdings' general partner.

The Company adopted revised consolidation accounting guidance (ASU 2015-02) as of January 1, 2016. Upon adoption, Artisan Partners Launch Equity LP ("Launch Equity"), a private investment partnership liquidated in 2014, was deconsolidated and all periods presented in the audited consolidated financial statements were restated to reflect the deconsolidation. Launch Equity was previously accounted for as a consolidated variable interest entity until its operations were dissolved in 2014. See Note 2, "Summary of Significant Accounting Policies" in the Notes to the Consolidated Financial Statements for additional information.

For consistency, the selected consolidated statements of operations data for the years ended December 31, 2013 and 2012 and the consolidated statement of financial condition as of December 31, 2014, 2013 and 2012 were restated to reflect the deconsolidation to be presented on the same basis as the annual financial statements.

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

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	For the Years Ended December 31,				
	2016	2015	2014	2013	2012
	(in millions, except per-share data)				
Statements of Operations Data:					
Revenues					
Management fees					
Mutual funds	$470.6	$543.3	$575.4	$464.3	$336.2
Separate accounts	249.2	260.4	252.3	219.0	167.8
Performance fees	1.1	1.8	1.0	2.5	1.6
Total revenues	$720.9	$805.5	$828.7	$685.8	$505.6
Operating Expenses					
Salaries, incentive compensation and benefits	355.8	372.2	350.3	309.2	227.3
Pre-offering related compensation-share-based awards	28.1	42.1	64.7	404.2	101.7
Pre-offering related compensation-other	—	—	—	143.0	54.1
Total compensation and benefits	383.9	414.3	415.0	856.4	383.1
Distribution and marketing	32.5	43.6	49.1	38.4	29.0
Occupancy	13.1	12.5	11.3	10.5	9.3
Communication and technology	32.2	25.5	21.0	14.4	13.2
General and administrative	25.0	27.2	25.4	27.3	23.9
Total operating expenses	486.7	523.1	521.8	947.0	458.5
Operating income (loss)	234.2	282.4	306.9	(261.2)	47.1
Non-operating income (loss)					
Interest expense	(11.7)	(11.7)	(11.6)	(11.9)	(11.4)
Net gain on the valuation of contingent value rights	—	—	—	49.6	—
Net investment income (loss) and other	1.3	0.4	0.4	5.1	(0.9)
Net gain (loss) on the tax receivable agreements	0.7	(12.2)	(4.2)	—	—
Total non-operating income (loss)	(9.7)	(23.5)	(15.4)	42.8	(12.3)
Income (loss) before income taxes	224.5	258.9	291.5	(218.4)	34.8
Provision for income taxes	51.5	46.8	48.8	26.4	1.0
Net income (loss) before noncontrolling interests	173.0	212.1	242.7	(244.8)	33.8
Less: Net income (loss) attributable to noncontrolling interests-Artisan Partners Holdings LP	100.0	130.3	173.1	(269.6)	33.8
Net income attributable to Artisan Partners Asset Management Inc.	$73.0	$81.8	$69.6	$24.8	$—
Earnings (loss) per basic and diluted common share	$1.57	$1.86	$(0.37)	$(2.04)	—
Weighted average basic and diluted common shares outstanding	38.1	35.4	27.5	13.8	—
Dividends declared per Class A common share	$2.80	$3.35	$3.83	$0.86	—

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	As of December 31,				
	2016	2015	2014	2013	2012
Statement of Financial Condition Data:	(in millions)				
Cash and cash equivalents	$156.8	$166.2	$182.3	$211.8	$141.2
Total assets	936.2	946.5	849.5	491.5	220.5
Borrowings[(1)]	200.0	200.0	200.0	200.0	290.0
Total liabilities	818.5	829.9	742.0	409.6	572.7
Temporary equity-redeemable preferred units[(2)]	—	—	—	—	357.2
Total equity (deficit)	$117.7	$116.6	$107.5	$81.9	$(709.4)

(1) In August 2012, we issued $200 million in unsecured notes and entered into a $100 million five-year revolving credit agreement. We used the proceeds of the notes and $90 million drawn from the revolving credit facility to prepay all of the then-outstanding principal amount of our $400 million term loan. We used a portion of the net proceeds of our IPO to repay all of the $90 million drawn from the revolving credit facility. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources".
(2) Under the terms of Artisan Partners Holdings' limited partnership agreement in effect prior to the IPO Reorganization, the holders of the preferred units had a right to put such units to the partnership on July 3, 2016 under certain circumstances.

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

	As of and for the Years Ended December 31,				
	2016	2015	2014	2013	2012
Selected Unaudited Operating Data:	(in millions)				
Assets under management[(1)]	$96,845	$99,848	$107,915	$105,477	$74,334
Net client cash flows[(2)]	(4,824)	(5,848)	788	7,178	5,813
Market appreciation (depreciation)[(3)]	$1,821	$(2,219)	$1,650	$23,965	$11,417

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

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

	For the Years Ended December 31,				
	2016	2015	2014	2013	2012
	(dollars in millions)				
Net income attributable to Artisan Partners Asset Management Inc. (GAAP)	$73.0	$81.8	$69.6	$24.8	$—
Adjusted net income (Non-GAAP)	$158.7	$197.3	$228.9	$180.3	$122.4
Operating income (loss) (GAAP)	$234.2	$282.4	$306.9	$(261.2)	$47.1
Adjusted operating income (Non-GAAP)	$262.3	$324.5	$371.7	$288.9	$202.9
Operating margin (GAAP)	32.5%	35.1%	37.0%	(38.1)%	9.3%
Adjusted operating margin (Non-GAAP)	36.4%	40.3%	44.9%	42.1%	40.1%

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

Information”.

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Item 7. Management's Discussion and Analysis of Financial Condition 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.

Our autonomous investment teams manage a broad range of U.S., non-U.S. and global investment strategies that are diversified by market cap and investment style. Strategies are offered through multiple investment vehicles to accommodate a broad range of client mandates. In the fourth quarter of 2016, Chris Smith joined the Company as the founding portfolio manager of our eighth autonomous investment team, the Artisan Thematic team.

During the year ended December 31, 2016, our AUM declined to $96.8 billion at December 31, 2016, a decrease of $3.0 billion, or 3.0%, compared to $99.8 billion at December 31, 2015. This decrease was due to $4.8 billion of net client cash outflows partially offset by $1.8 billion in market appreciation. Revenues were $721 million for the year ended December 31, 2016, an 11% decrease from revenues of $806 million in the prior year. GAAP operating margin was 32.5% and adjusted operating margin was 36.4% for the year ended December 31, 2016. Net income attributable to APAM was $73.0 million, or $1.57 per basic and diluted share, for the year ended December 31, 2016 compared to $81.8 million, or $1.86 per basic and diluted share, for the year ended December 31, 2015. Adjusted net income per adjusted share was $2.13 for the year ended December 31, 2016 compared to $2.69 for the year ended December 31, 2015.

2016 business and financial highlights included:

- The maintenance of an environment and culture that supports our investment professionals continued effort to deliver strong investment performance. At year-end, the 10-year average annual returns of each of our 8 investment strategies with a 10-year track record exceeded the returns of its 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 by over 500 and 300 basis points, respectively, over the trailing 5-year period. Our two newest strategies, High Income and Developing World, continued to perform well and gather assets.
- The hiring and on-boarding of our eighth investment team, the Thematic team, which we expect will eventually manage multiple strategies. These strategies will be consistent with our high value added philosophy and reflect our goal of launching new strategies with high degrees of freedom that are not easily replicated with passive products.
- During the year, four of our seven investment teams experienced net client cash inflows. The strategies managed by our U.S. Value team experienced total net outflows of $3.6 billion during the year, and our Global Equity team's Non-U.S. Growth strategy had net outflows of $3.8 billion during the year.
- In January 2017, the Global Value team was recognized again with their sixth nomination for Morningstar International-Stock Fund Manager of the Year in the U.S.
- We continued to increase the geographic diversification of our business. At year-end, $18 billion, or 18%, of our total assets under management were from clients domiciled outside the U.S.
- We declared and distributed dividends of $2.80 per share of Class A common stock during 2016, which represents all of our adjusted earnings and non-cash expenses.
- Maintaining and enhancing relationships and communication with clients, investors, employees and potential new investment talent.

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. Our employees and other limited partners of Holdings held approximately 43% of the equity interests in Holdings as of December 31, 2016. As a result, our post-IPO results reflect that significant noncontrolling interest.

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2016 Unit Exchanges

During the year ended December 31, 2016, certain limited partners of Holdings exchanged 1,679,507 common units (along with a corresponding number of shares of Class B or Class C common stock of APAM) for 1,679,507 shares of Class A common stock. In connection with the exchanges, APAM received 1,679,507 GP units of Holdings. APAM's equity ownership interest in Holdings increased from 54% at December 31, 2015 to 57% at December 31, 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.

The change in the Company's deferred tax assets related to the tax benefits described above and the change in corresponding amounts payable under the TRAs for the year ended December 31, 2016 is summarized as follows:

	Amounts Payable Under Tax Receivable Agreements	Deferred Tax Asset - Amortizable Basis
	(in millions)	
December 31, 2015	$589.1	$ 660.3
2016 Common Unit Exchanges	25.5	29.9
Amortization	—	(36.0)
Payments under TRA	(27.7)	
Change in estimate	(0.7)	(0.3)
December 31, 2016	$586.2	$ 653.9

Financial Overview

Economic Environment

Global equity market conditions can materially affect our financial performance. During the year ended December 31, 2016, market appreciation positively impacted our AUM by 2%. The following table presents the total returns of relevant market indices:

	For the Years Ended December 31,		
	2016	2015	2014
S&P 500 total returns	12.0%	1.4 %	13.7 %
MSCI All World total returns	7.9 %	(2.4)%	4.2 %
MSCI EAFE total returns	1.0 %	(0.8)%	(4.9)%
Russell Midcap® Index total returns	13.8%	(2.4)%	13.2 %

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Key Performance Indicators

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

	For the Years Ended December 31,		
	2016	2015	2014
	(unaudited; in millions)		
Assets under management at period end	$96,845	$99,848	$107,915
Average assets under management[1]	$96,281	$106,484	$107,865
Net client cash flows	$(4,824)	$(5,848)	$788
Total revenues	$721	$806	$829
Weighted average fee[2]	75 bps	76 bps	77 bps
Operating Margin	32.5 %	35.1 %	37.0 %
Adjusted operating margin[3]	36.4 %	40.3 %	44.9 %

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

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

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

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 Years Ended December 31,		
	2016	2015	2014
	(unaudited; in millions)		
Beginning assets under management	$99,848	$107,915	$105,477
Gross client cash inflows	18,489	18,577	22,953
Gross client cash outflows	(23,313)	(24,425)	(22,165)
Net client cash flows	(4,824)	(5,848)	788
Market appreciation (depreciation) [1]	1,821	(2,219)	1,650
Ending assets under management	$96,845	$99,848	$107,915
Average assets under management	$96,281	$106,484	$107,865

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

Net client cash flows for the years ended December 31, 2016 and 2015 included net outflows of approximately $294 million and $616 million, respectively, from Artisan Partners Funds annual income and capital gains distributions, net of reinvestments.

Across the firm, we experienced total net outflows of $4.8 billion during 2016. The net outflows were primarily a result of net outflows in our Non-U.S. Growth, U.S. Mid-Cap Value, U.S. Mid-Cap Growth, and U.S. Small-Cap Value strategies, off-set in part by net inflows in our Global Opportunities, Global Value, High Income, Non-U.S. Value, and Developing World strategies.

Our Global Equity team's Non-U.S. Growth strategy had net outflows of $3.8 billion during the year as a result of short-term underperformance and outflows primarily from intermediary channel investors. We closed the strategy to most new retail and intermediary investors in February 2016, and we further closed the strategy to most new institutional investors and employee benefit plans in October 2016. Due to the strategy's recent relative under-performance, we expect the strategy will continue to experience net outflows.

The strategies managed by our U.S. Value team experienced total net outflows of $3.6 billion during 2016, as a result of underperformance in the years leading up to last year, structural changes in the defined contribution marketplace, and our decision to cease managing assets in the U.S. Small-Cap Value strategy in the second quarter of 2016. The U.S. Mid-Cap Value and U.S. Small-Cap Value strategies had net outflows of $2.8 billion and $706 million, respectively, during the year. We ceased managing the U.S. Small-Cap Value strategy during the second quarter of 2016 and reorganized Artisan Small Cap Value Fund into Artisan Mid Cap Value Fund at that time. In the fourth quarter, we reopened the U.S. Mid-Cap Value strategy across vehicles and client types. The strategy had previously been closed to most new investors and client relationships since mid-2009. We expect to continue to experience net outflows in the U.S. Mid-Cap Value strategy, though not at the same levels we experienced in 2016 and 2015.

The strategies managed by our Growth team had total net inflows of $450 million, primarily as a result of $2.7 billion of net inflows into the Global Opportunities strategy and $1.9 billion of net outflows from the U.S. Mid-Cap Growth strategy. We expect to continue to experience net inflows in the Global Opportunities strategy, for which there is strong global demand, and net outflows in the U.S. Mid-Cap Growth strategy, in particular from defined contribution plan clients.

Our Global Value team's two strategies experienced total net inflows of $1.5 billion during 2016. The Global Value strategy is open across pooled vehicles but is generally closed to most new separate account clients. The Non-U.S. Value strategy remains closed to most new investors and client relationships.

Our High Income strategy, which we launched in March 2014, generated net inflows of $670 million during 2016, despite having a short-term track record. We also continued to see interest in our Developing World strategy during the year, which launched at the end of June 2015 and ended 2016 with $987 million of AUM. We expect to see continued net inflows into these strategies.

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. In March 2017, our High Income strategy will complete its third year of operations. A strong three-year track record generally results in increased demand for the strategy and positions the strategy well for continued organic growth.

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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.

During the first quarter of 2017, we ceased managing assets in the Global Small-Cap Growth strategy and Artisan Global Small Cap Fund was liquidated. Net outflows from the Global Small-Cap Growth strategy between December 31, 2016 and January 20, 2017, were approximately $20 million.

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

When we close a strategy, we typically continue to allow additional investments in the strategy by existing clients and certain related entities. We may also permit new investments by other eligible investors in certain circumstances, for example to offset potential outflows. As a result, during a given period we could have net client cash inflows even in a closed strategy. For example, during the year ended December 31, 2016, our Non-U.S. Value strategy, which is closed to most new investors and client relationships, had $653 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. The results of these excluded accounts, which represented approximately 12% of our assets under management at December 31, 2016, are maintained in separate composites the results of which are not included below.

The table below sets forth the total AUM for each of our investment teams and strategies as of December 31, 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 December 31, 2016.

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Investment Team and Strategy	Inception Date	Strategy AUM (in $MM)	Average Annual Total Returns (Gross) 1 YR	3 YR	5 YR	10 YR	Inception	Average Annual Value-Added[1] Since Inception (bps)
Global Equity Team								
Non-U.S. Growth Strategy	1/1/1996	23,475	(8.87)%	(3.72)%	7.50%	2.92%	9.58%	533
MSCI EAFE Index			1.00%	(1.60)%	6.53%	0.75%	4.25%	
Non-U.S. Small-Cap Growth Strategy	1/1/2002	887	(11.86)%	(3.76)%	9.77%	4.82%	12.56%	304
MSCI EAFE Small Cap Index			2.18%	2.10%	10.54%	2.94%	9.52%	
Global Equity Strategy	4/1/2010	1,128	(0.48)%	2.11%	12.68%	N/A	10.42%	339
MSCI All Country World Index			7.86%	3.13%	9.35%	N/A	7.04%	
Global Small-Cap Growth Strategy[2]	7/1/2013	20	(13.18)%	(4.89)%	N/A	N/A	0.38%	(808)
MSCI All Country World Small Cap Index			11.59%	3.97%	N/A	N/A	8.46%	
U.S. Value Team								
U.S. Mid-Cap Value Strategy	4/1/1999	6,744	23.87%	5.09%	12.44%	9.07%	13.51%	435
Russell® Midcap Index			13.80%	7.91%	14.70%	7.85%	9.15%	
Russell® Midcap Value Index			20.00%	9.44%	15.69%	7.58%	10.02%	
Value Equity Strategy	7/1/2005	1,844	30.22%	8.13%	12.94%	7.12%	8.33%	31
Russell® 1000 Index			12.05%	8.58%	14.67%	7.08%	8.02%	
Russell® 1000 Value Index			17.34%	8.58%	14.78%	5.72%	7.27%	
Growth Team								
U.S. Mid-Cap Growth Strategy	4/1/1997	13,126	0.28%	3.52%	13.27%	10.00%	14.73%	458
Russell® Midcap Index			13.80%	7.91%	14.70%	7.85%	10.15%	
Russell® Midcap Growth Index			7.33%	6.22%	13.49%	7.83%	8.53%	
U.S. Small-Cap Growth Strategy	4/1/1995	2,065	6.90%	2.91%	13.47%	8.06%	9.80%	47
Russell® 2000 Index			21.31%	6.74%	14.44%	7.06%	9.33%	
Russell® 2000 Growth Index			11.32%	5.05%	13.73%	7.75%	7.37%	
Global Opportunities Strategy	2/1/2007	10,523	5.53%	6.10%	14.55%	N/A	9.02%	553
MSCI All Country World Index			7.86%	3.13%	9.35%	N/A	3.49%	
Global Value Team								
Non-U.S. Value Strategy	7/1/2002	17,855	6.44%	2.25%	11.85%	6.64%	12.22%	664

MSCI EAFE Index			1.00%	(1.60)%	6.53%	0.75%	5.59%	
Global Value Strategy	7/1/2007	16,085	11.32%	5.07%	13.35%	N/A	8.02%	529
MSCI All Country World Index			7.86%	3.13%	9.35%	N/A	2.72%	
Emerging Markets Team								
Emerging Markets Strategy	7/1/2006	228	17.03%	0.43%	3.01%	2.01%	4.09%	30
MSCI Emerging Markets Index			11.19%	(2.55)%	1.27%	1.84%	3.80%	
Credit Team								
High Income Strategy[3]	4/1/2014	1,878	15.74%	N/A	N/A	N/A	7.19%	315
BofA Merrill Lynch High Yield Master II Index			17.49%	N/A	N/A	N/A	4.03%	
Developing World Team								
Developing World Strategy	7/1/2015	987	13.08%	N/A	N/A	N/A	(0.14)%	532
MSCI Emerging Markets Index			11.19%	N/A	N/A	N/A	(5.46)%	
Total Assets Under Management		96,845						

(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.

(2) We ceased managing assets in the Global Small-Cap Growth strategy as of January 20, 2017.

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

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

Year Ended	By Investment Team Global Equity	U.S. Value	Growth	Global Value	Emerging Markets	Credit	Developing World	Total
December 31, 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	3,897	1,650	5,803	5,383	10	1,094	652	18,489
Gross client cash outflows	(7,885)	(5,264)	(5,353)	(3,878)	(401)	(424)	(108)	(23,313)
Net client cash flows	(3,988)	(3,614)	450	1,505	(391)	670	544	(4,824)
Market appreciation (depreciation)	(2,936)	1,833	335	2,253	48	219	69	1,821
Net transfers[1]	—	—	—	—	—	—	—	—
Ending assets under management	$25,510	$8,588	$25,714	$33,940	$ 228	$1,878	$ 987	$96,845
Average assets under management	$29,216	$8,733	$24,535	$31,282	$ 293	$1,527	$ 694	$96,281
December 31, 2015								
Beginning assets under management	$31,452	$18,112	$24,499	$32,481	$ 806	$565	$ —	$107,915
Gross client cash inflows	7,697	2,117	4,809	2,760	42	764	388	18,577
Gross client cash outflows	(5,630)	(8,574)	(5,294)	(4,379)	(205)	(335)	(8)	(24,425)
Net client cash flows	2,067	(6,457)	(485)	(1,619)	(163)	429	380	(5,848)
Market appreciation (depreciation)	(1,085)	(1,286)	915	(680)	(72)	(5)	(6)	(2,219)
Net transfers[1]	—	—	—	—	—	—	—	—
Ending assets under management	$32,434	$10,369	$24,929	$30,182	$ 571	$989	$ 374	99,848
Average assets under management[2]	$33,262	$14,511	$25,204	$32,015	$ 641	$775	$ 153	106,484
December 31, 2014								
Beginning assets under management	$27,317	$23,024	$22,433	$30,957	$ 1,746	$—	$ —	$105,477
Gross client cash inflows	9,185	3,003	5,912	4,177	21	655	—	22,953
Gross client cash outflows	(4,908)	(8,013)	(4,883)	(3,351)	(917)	(93)	—	(22,165)
Net client cash flows	4,277	(5,010)	1,029	826	(896)	562	—	788
Market appreciation (depreciation)	(142)	98	990	745	(44)	3	—	1,650
Net transfers[1]	—	—	47	(47)	—	—	—	—
Ending assets under management	$31,452	$18,112	$24,499	$32,481	$ 806	$565	$ —	$107,915
Average assets under management[3]	$29,817	$20,881	$23,201	$32,467	$ 1,199	$381	$ —	107,865

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

(2)For the Developing World team, average assets under management is for the period between June 29, 2015, when the team's investment strategy began operations, and December 31, 2015.

(3)For the Credit team, average assets under management is for the period between March 19, 2014, when the team's investment strategy began operations, and December 31, 2014.

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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 December 31, 2016		As of December 31, 2015		As of December 31, 2014	
	$ in millions (unaudited)	% of total	$ in millions	% of total	$ in millions	% of total
Institutional	$64,113	66.2 %	$64,352	64.5 %	$68,153	63.2 %
Intermediary	27,925	28.8 %	30,161	30.2 %	33,894	31.4 %
Retail	4,807	5.0 %	5,335	5.3 %	5,868	5.4 %
Ending Assets Under Management[1]	$96,845	100.0%	$99,848	100.0%	$107,915	100.0%

[1] 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:

Year Ended	Artisan Funds & Artisan Global Funds	Separate Accounts	Total
December 31, 2016	(unaudited; in millions)		
Beginning assets under management	$53,526	$46,322	$99,848
Gross client cash inflows	13,101	5,388	18,489
Gross client cash outflows	(17,715)	(5,598)	(23,313)
Net client cash flows	(4,614)	(210)	(4,824)
Market appreciation (depreciation)	604	1,217	1,821
Net transfers[1]	(149)	149	—
Ending assets under management	$49,367	$47,478	$96,845
Average assets under management	$50,908	$45,373	$96,281
December 31, 2015			
Beginning assets under management	$60,257	$47,658	$107,915
Gross client cash inflows	13,942	4,635	18,577
Gross client cash outflows	(18,864)	(5,561)	(24,425)
Net client cash flows	(4,922)	(926)	(5,848)
Market appreciation (depreciation)	(1,494)	(725)	(2,219)
Net transfers[1]	(315)	315	—
Ending assets under management	$53,526	$46,322	$99,848
Average assets under management	$58,671	$47,813	$106,484
December 31, 2014			
Beginning assets under management	$59,881	$45,596	$105,477
Gross client cash inflows	15,800	7,153	22,953
Gross client cash outflows	(15,365)	(6,800)	(22,165)
Net client cash flows	435	353	788
Market appreciation (depreciation)	573	1,077	1,650
Net transfers[1]	(632)	632	—
Ending assets under management	$60,257	$47,658	$107,915
Average assets under management	$61,819	$46,046	107,865

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

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Artisan Funds and Artisan Global Funds

As of December 31, 2016, Artisan Funds comprised $46.4 billion, or 48%, of our assets under management. For the year ended December 31, 2016, fees from Artisan Funds represented $453.6 million, or 63%, of our revenues. Our tiered fee rates for the series of Artisan Funds range from 0.625% to 1.25% of fund assets, depending on the strategy, the amount invested and other factors.

As of December 31, 2016, Artisan Global Funds comprised $3.0 billion, or 3%, of our assets under management. In UCITS funds, it is permissible and in some circumstances customary for a portion of the management fee to be rebated to investors with accounts of a certain type or asset size to encourage investment at an early stage or for other reasons or for a portion of the management fee to be paid to intermediaries for distribution services. We have entered into such rebate and distribution arrangements, and will continue to do so, in circumstances we consider appropriate. Our fee rates for Artisan Global Funds range from 0.75% to 1.75% of assets under management. For the year ended December 31, 2016, fees from Artisan Global Funds represented $17.0 million, or 2%, of our revenues.

The weighted average rate of fee paid by our Artisan Funds and Artisan Global Funds clients in the aggregate was 0.92% for the year ended December 31, 2016, and 0.93% for the years ended December 31, 2015 and 2014.

Separate Accounts

Separate accounts comprised $47.5 billion, or 49%, of our assets under management as of December 31, 2016. For the year ended December 31, 2016, fees from separate accounts represented $250.3 million, or 35%, of our revenues.

For separate account clients, we generally impose standard fee schedules that vary by investment strategy and, through the application of standard breakpoints, reflect the size of the account and client relationship, with tiered rates of fee currently ranging from 0.40% of assets under management to 1.05% of assets under management. There are a number of exceptions to our standard fee schedules, including exceptions based on the nature of our relationship with the client and the value of the assets under our management in that relationship. In general, our effective rate of fee for a particular client relationship declines as the assets we manage for that client increase, which we believe is typical for the asset management industry.

The weighted average rate of fee paid by our separate account clients in the aggregate was 0.55% for the years ended December 31, 2016, 2015 and 2014. Because, as is typical in the asset management industry, our rates of fee decline as the assets under our management in a relationship increase, and because of differences in our fees by investment strategy, a change in the composition of our assets under management, in particular a shift to strategies, clients or relationships with lower effective rates of fees, could have a material impact on our overall weighted average rate of fee. See "—Qualitative and Quantitative Disclosures Regarding Market Risk—Market Risk" for a sensitivity analysis that demonstrates the impact that certain changes in the composition of our assets under management could have on our revenues.

Revenues

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

A small number of our separate account clients pay us fees according to the performance of their accounts relative to certain agreed-upon benchmarks, which typically results in a lower base fee, but allows us to earn higher fees if the performance we achieve for that client is superior to the performance of an agreed-upon benchmark.

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The following table sets forth revenues we earned under our investment management agreements with Artisan Funds and Artisan Global Funds and on the separate accounts that we managed as well as average assets under management for the years ended December 31, 2016, 2015 and 2014:

	For the Years Ended December 31,		
	2016	2015	2014
	(in millions)		
Revenues			
Management fees			
Artisan Funds & Artisan Global Funds	$470.6	$543.3	$575.4
Separate accounts	249.2	260.4	252.3
Performance fees	1.1	1.8	1.0
Total revenues	$720.9	$805.5	$828.7
Average assets under management for period	$96,281	$106,484	$107,865

For the years ended December 31, 2016, 2015 and 2014, approximately 89%, 90% and 91%, respectively, of our investment management fees were earned from clients located in the United States.

Operating Expenses

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

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

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

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

Compensation and Benefits

Compensation and benefits includes (i) salaries, incentive compensation and benefits costs, (ii) compensation expense related to post-IPO equity awards granted to employees and (iii) pre-offering related compensation, which consists of amortization expense on unvested Class B awards.

Incentive compensation is one of the most significant parts of the total compensation of our senior employees. The aggregate amount of cash incentive compensation paid to members of our investment teams and senior members of our marketing and client service teams is based on formulas that are tied directly to revenues, which for each of our investment teams represents approximately 25% of the revenues generated by assets under management in the team's strategy or strategies. Incentive compensation paid to other employees is discretionary and subjectively determined based on individual performance and our overall results during the applicable year.

Certain compensation and benefits are seasonal expenses, such as employer funded retirement and health care contributions and payroll taxes. Historically these costs have added approximately $3 million to $4 million to our costs in the first quarter of each calendar year.

We grant equity awards to our employees pursuant to the Artisan Partners Asset Management Inc. 2013 Omnibus Incentive Compensation Plan. The awards consist of standard restricted awards that generally vest on a pro rata basis over 5 years and career awards that vest when both of the following conditions are met (1) pro-rata annual time vesting over 5 years and (2) qualifying retirement (as defined in the award agreements).

Compensation expense related to the equity awards is recognized based on the estimated grant date fair value, for only those awards that vest, on a straight-line basis over the requisite service period of the award. The initial requisite service period is generally five years for awards that have been granted to date.

Our board of directors approved the grant of 1,138,892 restricted share-based awards to certain of our employees during 2016 and 1,268,500 restricted share-based awards in January 2017. The grants consisted of both standard restricted awards and career awards, as described above.

Total compensation expense, which will be recognized on a straight-line basis over the requisite service period, is expected to be approximately $34.6 million and approximately $35.9 million, for the 2016 and January 2017 awards, respectively. Including the January 2017 grant, we expect the 2017 quarterly expense related to post-IPO equity compensation to be approximately $12 million per quarter.

Since the IPO and including the January 2017 grant, our board of directors has approved the grant of 6,070,187 restricted share-based awards. The unrecognized non-cash compensation expense for these awards as of December 31, 2016 was $147.0 million. We expect to continue to make equity grants each year, though the form and structure of equity awards may change as we seek to maximize alignment between our employees and our clients, investors, partners, and shareholders. The amount of equity granted will vary from year to year and will be influenced by our results and other factors. From time to time, we may make individual equity grants to people we hire.

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

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

Distribution and Marketing

Distribution and marketing expenses primarily represent payments we make to broker-dealers, financial advisors, defined contribution plan providers, mutual fund supermarkets and other intermediaries for selling, servicing and administering accounts invested in shares of Artisan Funds. Artisan Funds authorizes intermediaries to accept purchase, exchange, and redemption orders for shares of Artisan Funds on behalf of Artisan Funds. Many intermediaries charge a fee for those services. Artisan Funds pays a portion of such fees, which are intended to compensate the intermediary for its provision of services of the type that would be provided by Artisan Funds' transfer agent or other service providers if the shares were registered directly on the books of Artisan Funds' transfer agent. Like the investment management fees we earn as adviser to Artisan Funds, distribution fees typically vary with the value of the assets invested in shares of Artisan Funds. The allocation of such fees between us and Artisan Funds is determined by the board of Artisan Funds, based on information and a recommendation from us, with the goal of allocating to us all costs attributable to the marketing and distribution of shares of Artisan Funds. A significant portion of Artisan Funds' shares are held by investors through intermediaries to which we pay distribution and marketing expenses.

Total distribution fees will increase if we increase our assets under management sourced through intermediaries that charge these fees. The amount we pay to intermediaries for distribution and administrative services varies by share class. If assets transfer from the Investor share class to the Advisor or the Institutional share classes, the amount of fees we pay will decrease. In contrast to some mutual funds, investors in Artisan Funds pay no 12b-1 fees, which are fees charged to investors to pay for marketing, advertising and distribution services.

Occupancy

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

Communication and technology

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

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

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General and Administrative
General and administrative expenses include professional fees, travel and entertainment, state and local taxes, directors' and officers' liability insurance, director fees, and other miscellaneous expenses we incur in operating our business.
Non-Operating Income (Loss)
Interest Expense
Interest expense primarily relates to the interest we pay on our debt. In August 2012, we issued $200 million in fixed interest rate senior unsecured notes and entered into a $100 million five-year revolving credit agreement. The proceeds were used to repay the entire outstanding principal of an existing term loan. The revolving credit facility has been undrawn since our March 2013 IPO. For a description of the terms of the notes and our revolving credit facility, see "—Liquidity and Capital Resources". Interest expense also includes interest on TRA payments, which is incurred between the due date (without extension) for our federal income tax return and the date on which we make TRA payments.
$60 million of the unsecured notes mature in August 2017. We currently expect to refinance the notes at similar rates and on similar terms as the notes coming due. We also currently expect to renew the revolving credit facility in August 2017.
Other Non-Operating Income (Loss)
Other items included in total non-operating income (loss) are income from our excess cash balances, dividends earned on available-for-sale securities, and gains or losses we recognize upon the sale of available-for-sale securities. Non-operating income (loss) also includes gains or losses related to the changes in our estimate of the payment obligation under the tax receivable agreements. The effect of changes in our estimate of amounts payable under the tax receivable agreements, including the effect of changes in enacted tax rates and in applicable tax laws, is included in net income.
Net Income (Loss) Attributable to Noncontrolling Interests
Net Income (Loss) Attributable to Noncontrolling Interests-Holdings
Net income (loss) attributable to noncontrolling interests-Holdings represents the portion of earnings or loss attributable to the ownership interest in Artisan Partners Holdings held by the limited partners of Artisan Partners Holdings.
Provision for Income Taxes
The provision for income taxes primarily represents APAM's U.S. federal, state, and local income taxes on its allocable portion of Holdings' income, as well as foreign income taxes payable by Holdings' subsidiaries. Our effective income tax rate is dependent on many factors, including a rate benefit attributable to the fact that a portion of Artisan Partners Holdings' earnings are not subject to corporate level taxes. Thus, income before income taxes includes amounts that are attributable to noncontrolling interests and not taxable to APAM and its subsidiaries, which reduces the effective tax rate. This favorable impact is partially offset by the impact of certain permanent items, 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. Pre-IPO share-based compensation expenses and the related impact to the effective tax rate will no longer exist after the awards fully vest on July 1, 2017.
Beginning in 2016, the effective tax rate is also affected by the discrete tax impact of dividends on unvested share-based awards and vesting of restricted share-based awards; however, those items did not have a significant impact on our effective tax rate for the year ended December 31, 2016.

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Results of Operations

Year Ended December 31, 2016, Compared to Year Ended December 31, 2015

	For the Years Ended December 31,		Period-to-Period	
	2016	2015	$	%
Statements of operations data:	(in millions, except share and per-share data)			
Revenues	$720.9	$ 805.5	$(84.6)	(11)%
Operating Expenses				
Total compensation and benefits	383.9	414.3	(30.4)	(7)%
Other operating expenses	102.8	108.8	(6.0)	(6)%
Total operating expenses	486.7	523.1	(36.4)	(7)%
Total operating income	234.2	282.4	(48.2)	(17)%
Non-operating income (loss)				
Interest expense	(11.7)	(11.7)	—	— %
Other non-operating income (loss)	2.0	(11.8)	13.8	117 %
Total non-operating income (loss)	(9.7)	(23.5)	13.8	59 %
Income before income taxes	224.5	258.9	(34.4)	(13)%
Provision for income taxes	51.5	46.8	4.7	10 %
Net income before noncontrolling interests	173.0	212.1	(39.1)	(18)%
Less: Noncontrolling interests - Artisan Partners Holdings	100.0	130.3	(30.3)	(23)%
Net income attributable to Artisan Partners Asset Management Inc.	$73.0	$ 81.8	$(8.8)	(11)%
Per Share Data				
Net income available to Class A common stock per basic and diluted share	$1.57	$ 1.86		
Weighted average basic and diluted shares of Class A common stock outstanding	38,137,81[illegible]	35,448,550		

Revenues

The decrease in revenues of $84.6 million, or 11%, for the year ended December 31, 2016, compared to the year ended December 31, 2015, was driven primarily by a $10.2 billion, or 10%, decrease in our average AUM and a decrease in our weighted average investment management fee rate.

Our weighted average investment management fee was 75 basis points for the year ended December 31, 2016, compared to 76 basis points for the year ended December 31, 2015. The slight decrease in the weighted average fee rate is the result of a shift in the mix of our AUM between our investment strategies and vehicles, primarily a reduction in the proportion of our total assets managed through Artisan Funds.

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 Years Ended December 31,	2016	2015	2016	2015
	(unaudited; dollars in millions)			
Investment management fees	$250.3	$262.2	$470.6	$543.3
Weighted average fee	55 basis points	55 basis points	92 basis points	93 basis points
Percentage of ending AUM	49 %	46 %	51 %	54 %

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Operating Expenses

The decrease in total operating expenses of $36.4 million for the year ended December 31, 2016, compared to the year ended December 31, 2015, was primarily a result of lower incentive compensation and third-party distribution expenses in 2016, which fluctuate with revenue and AUM, and a decrease in pre-offering related equity compensation expense. We incurred approximately $3.5 million of operating expenses in the fourth quarter of 2016 related to the establishment of the Thematic team and the addition of a Chief Operating Officer of Investments. We expect the operating expenses associated with the Thematic team and new executive will collectively be approximately $2.0 million per quarter in 2017, primarily related to compensation and benefits costs.

Compensation and Benefits

	For the Years Ended December 31,		Period-to-Period	
	2016	2015	$	%
	(in millions)			
Salaries, incentive compensation and benefits [1]	$312.6	$335.7	$(23.1)	(7)%
Restricted share-based award compensation expense	43.2	36.5	6.7	18 %
Total salaries, incentive compensation and benefits	355.8	372.2	(16.4)	(4)%
Pre-offering related compensation - share-based awards	28.1	42.1	(14.0)	(33)%
Total compensation and benefits	$383.9	$414.3	$(30.4)	(7)%

[1] Excluding restricted share-based award compensation expense

The decrease in salaries, incentive compensation and benefits was driven primarily by a $23.9 million decrease 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 the number of employees, including those on the Thematic team and the addition of a Chief Operating Officer of Investments, as described above.

The $6.7 million increase in restricted share-based compensation expense resulted primarily from grants of awards in 2016 and 2015. We expect restricted share-based award compensation expense to continue to increase as we make additional equity awards each year, until our inaugural post-IPO grant becomes fully vested in 2018. The ultimate size of the expense will depend primarily on the number of awards granted and our stock price at the time awards are made.

Pre-offering related compensation expense, which consists of the amortization expense on pre-offering Class B awards, decreased $14.0 million, as certain awards became fully vested during 2016 and 2015. 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 years ended December 31, 2016 and 2015, respectively.

Other operating expenses

Other operating expenses decreased $6.0 million for the year ended December 31, 2016, compared to the year ended December 31, 2015, primarily due to a $10.7 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 $2.9 million for the year ended December 31, 2016, as compared to the year ended December 31, 2015. Other operating expenses includes a $6.7 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 year ended December 31, 2016 includes $0.7 million of income resulting from changes in the estimate of the payment obligation under the tax receivable agreements, compared to $12.2 million of expense for year ended December 31, 2015. The effect of changes in that estimate after the date of an exchange or sale is included in net income. Similarly, the effect on the estimate of changes in enacted tax rates and in applicable tax laws are included in net income.

Provision for Income Taxes

APAM's effective income tax rate for the years ended December 31, 2016 and 2015 was 22.9% and 18.1%, respectively. The rate increase was partially due to an increase in APAM's equity ownership in Holdings. For the year ended December 31, 2016, approximately 47% of Holdings' earnings were not subject to corporate-level taxes compared to approximately 50% for the year ended December 31, 2015. The rate increase was also due to the fact that the tax provision for the year ended December 31, 2015 included a discrete tax benefit of $8.3 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 year ended December 31, 2016, as a result of stock offerings, unit exchanges, and equity award grants. See Note 11, "Earnings (Loss) Per Share" in the Notes to the Consolidated Financial Statements in Item 8 of this report for further discussion of earnings per share.

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Year Ended December 31, 2015 Compared to the Year Ended December 31, 2014

	For the Years Ended December 31,		For the Period-to-Period	
	2015	2014	$	%
Statements of operations data:	(in millions, except share and per-share data)			
Revenues	$805.5	$ 828.7	$(23.2)	(3)%
Operating Expenses				
Total compensation and benefits	414.3	415.0	(0.7)	— %
Other operating expenses	108.8	106.8	2.0	2 %
Total operating expenses	523.1	521.8	1.3	— %
Total operating income	282.4	306.9	(24.5)	(8)%
Non-operating income (loss)				
Interest expense	(11.7)	(11.6)	(0.1)	(1)%
Other non-operating income (loss)	(11.8)	(3.8)	(8.0)	(211)%
Total non-operating income (loss)	(23.5)	(15.4)	(8.1)	(53)%
Income before income taxes	258.9	291.5	(32.6)	(11)%
Provision for income taxes	46.8	48.8	(2.0)	(4)%
Net income before noncontrolling interests	212.1	242.7	(30.6)	(13)%
Less: Noncontrolling interests - Artisan Partners Holdings	130.3	173.1	(42.8)	(25)%
Net income attributable to Artisan Partners Asset Management Inc.	$81.8	$ 69.6	$12.2	18 %
Per Share Data				
Net income (loss) available to Class A common stock per basic and diluted share	$1.86	$ (0.37)		
Weighted average basic and diluted shares of Class A common stock outstanding	35,448,550	27,514,394		

Revenues

The decrease in revenues of $23.2 million, or 3%, for the year ended December 31, 2015, compared to the year ended December 31, 2014, was driven primarily by a $1.4 billion or 1%, decrease in our average AUM and a decrease in our weighted average investment management fee rate.

Our weighted average investment management fee was 76 basis points for the year ended December 31, 2015, compared to 77 basis points for the year ended December 31, 2014. The decrease in the weighted average fee rate was the result of a shift in the mix of our AUM between our investment strategies and vehicles, primarily a reduction in the proportion of our total assets managed through Artisan Funds.

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 Years Ended December 31,	2015	2014	2015	2014
	(unaudited; dollars in millions)			
Investment management fees	$262.2	$253.3	$543.3	$575.4
Weighted average fee	55 basis points	55 basis points	93 basis points	93 basis points
Percentage of ending AUM	46 %	44 %	54 %	56 %

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Operating Expenses

The increase in total operating expenses of $1.3 million for the year ended December 31, 2015, compared to the year ended December 31, 2014, was primarily due to a $13.4 million increase in restricted share-based compensation expense and costs associated with the formation of our Developing World team. We incurred approximately $12 million of expenses during the year ended December 31, 2015 related to the Developing World team, of which $6.5 million related to establishing the team. The increased expenses were partially offset by a $22.6 million decrease in pre-offering related equity compensation expense.

Compensation and Benefits

	For the Years Ended December 31,		Period-to-Period	
	2015	2014	$	%
	(in millions)			
Salaries, incentive compensation and benefits [1]	$335.7	$327.2	$ 8.5	3 %
Restricted share-based award compensation expense	36.5	23.1	13.4	58 %
Total salaries, incentive compensation and benefits	372.2	350.3	21.9	6 %
Pre-offering related compensation - share-based awards	42.1	64.7	(22.6)	(35)%
Total compensation and benefits	$414.3	$415.0	$ (0.7)	0 %

[1] Excluding restricted share-based award compensation expense

The increase in salaries, incentive compensation and benefits was driven primarily by $6.0 million of start-up costs related to the Developing World team in the first quarter of 2015 and a $9.1 million increase due to an increase in the number of employees, including those on the Developing World team. These increases were partially offset by a decline in the cash incentive compensation directly linked to our revenues, which decreased by $6.6 million.

The $13.4 million increase in restricted share-based compensation expense resulted primarily from grants of awards in January 2015 and July 2014.

Pre-offering related compensation expense, which consists of the amortization expense on pre-offering Class B awards decreased $22.6 million, as certain awards became fully vested during 2015 and 2014. Class B awards will be fully vested on July 1, 2017.

Total salaries, incentive compensation and benefits was 46% and 42% of our revenues for the years ended December 31, 2015 and 2014, respectively.

Other operating expenses

Other operating expenses increased $2.0 million for the year ended December 31, 2015, compared to the year ended December 31, 2014, primarily due to a $4.5 million increase in communication and technology expenses as a result of investments in firm technology initiatives, mainly in the areas of information security and distribution and marketing. Occupancy and general and administrative expenses also increased by $3.0 million primarily due to an increase in the number of employees, including those on the Developing World team.

The increases in other operating expenses described above were partially offset by a $4.4 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 $2.7 million for the year ended December 31, 2015, as compared to the year ended December 31, 2014.

Non-Operating Income (Loss)

Non-operating income (loss) for the years ended December 31, 2015 and 2014 includes $12.2 million and $4.2 million, respectively, 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 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.

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Provision for Income Taxes

APAM's effective income tax rate for the years ended December 31, 2015 and 2014 was 18.1% and 16.7%, respectively. The rate increase was primarily due to an increase in APAM's equity ownership in Holdings. For the year ended December 31, 2015, approximately 50% of Holdings' earnings were not subject to corporate-level taxes compared to approximately 60% for the year ended December 31, 2014.

Included in the tax provision for the years ended December 31, 2015 and 2014, are discrete tax benefits of $8.3 million and $4.1 million, respectively, 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 year ended December 31, 2015, as a result of stock offerings, unit exchanges, and equity award grants. Basic and diluted earnings per share were negatively impacted in 2014 by our purchase of our preferred securities because the purchase price was greater than the equity carrying value. See Note 11, "Earnings (Loss) Per Share" in the Notes to the Consolidated Financial Statements in Item 8 of this report for further discussion of earnings per share.

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Supplemental Non-GAAP Financial Information

Our management uses non-GAAP measures (referred to as "adjusted" measures) of net income and operating income to evaluate the profitability and efficiency of the underlying operations of our business and as a factor when considering net income available for distributions and dividends. These adjusted measures remove the impact of (1) pre-offering related compensation, (2) offering related proxy expense and (3) 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, (2) offering related proxy expense and (3) 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 and all shares of APAM's convertible preferred stock had been exchanged for or converted into Class A common stock of APAM on a one-for-one basis. Assuming full vesting, exchange and conversion, 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 years ended December 31, 2016 and 2015, and 36.5% for the year ended December 31, 2014.
- 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, the exchange of all outstanding limited partnership units of Artisan Partners Holdings and the conversion of all outstanding shares of APAM's convertible preferred stock for or into Class A common stock of APAM on a one-for-one basis.
- Adjusted operating income represents the operating income of the consolidated company excluding offering related proxy expense and pre-offering related compensation.
- Adjusted operating margin is calculated by dividing adjusted operating income by total revenues.
- Adjusted EBITDA represents net income before taxes, interest expense and depreciation and amortization, adjusted to exclude the impact of net income attributable to non-controlling interests, offering related proxy expense, 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 gain (loss) on tax receivable agreements represents the income (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.

Offering related proxy expense represents costs incurred as a result of the change of control (for purposes of the Investment Company Act and Investment Advisers Act) which occurred on March 12, 2014. We incurred costs through the first quarter of 2014 to solicit the necessary approvals and consents from the boards and shareholders of the mutual funds that we advise or sub-advise and from our separate accounts clients, which were necessary because of the change of control.

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

	For the Years Ended December 31,		
	2016	2015	2014
	(unaudited; in millions, except per share data)		
Reconciliation of non-GAAP financial measures:			
Net income attributable to Artisan Partners Asset Management Inc. (GAAP)	$73.0	$81.8	$69.6
Add back: Net income attributable to noncontrolling interests - Artisan Partners Holdings	100.0	130.3	173.1
Add back: Provision for income taxes	51.5	46.8	48.8
Add back: Pre-offering related compensation - share-based awards	28.1	42.1	64.7
Add back: Offering related proxy expense	—	—	0.1
Add back: Net (gain) loss on the tax receivable agreements	(0.7)	12.2	4.2
Less: Adjusted provision for income taxes	93.2	115.9	131.6
Adjusted net income (Non-GAAP)	$158.7	$197.3	$228.9
Average shares outstanding			
Class A common shares	38.1	35.4	27.5
Assumed vesting, conversion or exchange of:			
Unvested Class A restricted share-based awards	3.6	3.1	2.1
Convertible preferred shares outstanding	—	—	0.4
Artisan Partners Holdings units outstanding (noncontrolling interest)	32.8	35.0	42.2
Adjusted shares	74.5	73.5	72.2
Basic and diluted earnings per share (GAAP)	$1.57	$1.86	$(0.37)
Adjusted net income per adjusted share (Non-GAAP)	$2.13	$2.69	$3.17
Operating income (GAAP)	$234.2	$282.4	$306.9
Add back: Pre-offering related compensation - share-based awards	28.1	42.1	64.7
Add back: Offering related proxy expense	—	—	0.1
Adjusted operating income (Non-GAAP)	$262.3	$324.5	$371.7
Operating margin (GAAP)	32.5%	35.1%	37.0%
Adjusted operating margin (Non-GAAP)	36.4%	40.3%	44.9%
Net income attributable to Artisan Partners Asset Management Inc. (GAAP)	$73.0	$81.8	$69.6
Add back: Net income attributable to noncontrolling interests - Artisan Partners Holdings	100.0	130.3	173.1
Add back: Pre-offering related compensation - share-based awards	28.1	42.1	64.7
Add back: Offering related proxy expense	—	—	0.1
Add back: Net (gain) loss on the tax receivable agreements	(0.7)	12.2	4.2
Add back: Interest expense	11.7	11.7	11.6
Add back: Provision for income taxes	51.5	46.8	48.8
Add back: Depreciation and amortization	5.2	4.5	3.2
Adjusted EBITDA (Non-GAAP)	$268.8	$329.4	$375.3

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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 December 31, 2016 and December 31, 2015.

	December 31, 2016	December 31, 2015
	(in millions)	
Cash and cash equivalents	$156.8	$ 166.2
Accounts receivable	$59.7	$ 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. As of December 31, 2016, none of our receivables were considered uncollectable. We also maintain a $100 million revolving credit facility, which was unused as of and for the year ended December 31, 2016.

In August 2012, we issued $200 million in unsecured notes and entered into the $100 million five-year revolving credit facility. We used the proceeds of the notes and $90 million drawn from the revolving credit facility to prepay the entire then-outstanding principal amount of our $400 million term loan. The notes are comprised of three series, each with a balloon payment at maturity. In connection with the IPO, we paid all of the $90 million outstanding principal amount of loans under the revolving credit facility. See Note 5, “Borrowings” in the Notes to the Consolidated Financial Statements in Item 8 of this report for a discussion of the interest rates charged on our borrowings.

These borrowings contain certain customary covenants including limitations on Artisan Partners Holdings’ ability to: (i) incur additional indebtedness or liens, (ii) engage in mergers or other fundamental changes, (iii) sell or otherwise dispose of assets including equity interests, and (iv) make dividend payments or other distributions to Artisan Partners Holdings’ partners (other than, among others, tax distributions paid to partners for the purpose of funding tax liabilities attributable to their interests) when a default occurred and is continuing or would result from such a distribution. In addition, a change of control (as defined in the agreements) is an event of default under the revolving credit agreement and requires that Artisan Partners Holdings offer to prepay all of the notes under the note purchase agreement.

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

- leverage ratio (calculated as the ratio of consolidated total indebtedness on any date to consolidated EBITDA for the period of four consecutive fiscal quarters ended on or prior to such date) cannot exceed 3.00 to 1.00 (Artisan Partners Holdings’ leverage ratio for the year ended December 31, 2016 was 0.6 to 1.00); and
- interest coverage ratio (calculated as the ratio of consolidated EBITDA for any period of four consecutive fiscal quarters to consolidated interest expense for such period) cannot be less than 4.00 to 1.00 for such period (Artisan Partners Holdings’ interest coverage ratio for the year ended December 31, 2016 was 28.6 to 1.00).

Our failure to comply with any of the covenants or restrictions described above could result in an event of default under the agreements, giving our lenders the ability to accelerate repayment of our obligations.

$60 million of the unsecured notes and the $100 million revolving credit facility are scheduled to mature in August 2017. Subject to board approval, lender negotiations and market conditions, we currently intend to extend the $100 million revolving credit facility and refinance the $60 million notes prior to maturity. In the event the notes are not refinanced, we intend to use existing excess cash to pay the principal upon maturity.

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Distributions and Dividends

Artisan Partners Holdings' distributions, including distributions to APAM, for the years ended December 31, 2016 and 2015 were as follows:

	For the Years Ended December 31,	
	2016	2015
	(in millions)	
Holdings Partnership Distributions to Limited Partners	$133.9	$182.2
Holdings Partnership Distributions to APAM	$160.5	$186.7
Total Holdings Partnership Distributions	$294.4	$368.9

On January 27, 2017, we, acting as the general partner of Artisan Partners Holdings, declared a distribution of $38.2 million payable by Artisan Partners Holdings on February 22, 2017 to holders of its partnership units, including APAM, of record on February 14, 2017.

APAM declared and paid the following dividends per share during the years ended December 31, 2016 and 2015:

Type of Dividend	Class of Stock	For the Years Ended December 31,	
		2016	2015
Quarterly	Common Class A	$2.40	$2.40
Special Annual	Common Class A	$0.40	$0.95

On January 27, 2017, our board declared a quarterly dividend of $0.60 per share of Class A common stock and a special annual dividend of $0.36 per share of Class A common stock, both payable on February 28, 2017 to shareholders of record as of February 14, 2017. In determining the special annual dividend, we elected to retain approximately $0.25 per share of Class A common stock of previously generated cash and TRA-related cash savings. Subject to board approval each quarter, we currently expect to pay a quarterly dividend of $0.60 per share of Class A common stock. 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.

Tax Receivable Agreements ("TRAs")

In addition to funding our normal operations, we will be required to fund amounts payable under the TRAs that we entered into in connection with the IPO, which resulted in the recognition of a $586.2 million liability as of December 31, 2016. The liability generally represents 85% of the tax benefits APAM expects to realize as a result of the merger of an entity into APAM as part of the IPO Reorganization, our purchase of partnership units from limited partners of Holdings and the exchange of partnership units (for shares of Class A common stock, convertible preferred stock or other consideration). The estimated liability assumes no material changes in the relevant tax law and that APAM earns sufficient taxable income to realize all tax benefits subject to the TRAs. An increase or decrease in future tax rates will increase or decrease, respectively, the expected tax benefits APAM would realize and the amounts payable under the tax receivable agreement. Changes in the estimate of expected tax benefits APAM would realize and the amounts payable under the tax receivable agreement as a result of a change in tax rates would be recorded in net income.

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

The actual increase in tax basis, as well as the amount and timing of any payments under these agreements, will vary depending upon a number of factors, including the timing of sales or exchanges by the holders of limited partnership units, the price of the Class A common stock at the time of such sales or exchanges, whether such sales or exchanges are taxable, the amount and timing of the taxable income APAM generates in the future and the tax rate then applicable and the portion of APAM's payments under the TRAs constituting imputed interest or depreciable basis or amortizable basis. In certain cases, payments under the TRAs may be accelerated and/or significantly exceed the actual benefits we realize in respect of the tax attributes subject to the TRAs. In such cases, we intend to fund those payments with cash on hand, although we may have to borrow funds depending on the amount and timing of the payments. During the year ended December 31, 2016, payments of $27.8 million, including interest, were made in accordance with the TRA agreements. We expect to make payments of approximately $30 million in 2017 related to the TRAs.

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Cash Flows

	For the Years Ended December 31,		
	2016	2015	2014
	(in millions)		
Cash as of January 1	$166.2	$182.3	$211.8
Net cash provided by operating activities	270.4	321.2	351.6
Net cash provided by (used in) investing activities	(2.1)	(11.3)	(7.8)
Net cash used in financing activities	(277.7)	(326.0)	(373.3)
Cash Balance as of December 31,	$156.8	$166.2	$182.3

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015

Operating activities provided net cash of $270.4 million and $321.2 million for the years ended December 31, 2016 and 2015, respectively. The $50.8 million decrease in net cash provided by operating activities was primarily due to decreased revenues and operating income resulting from the decrease in average AUM. For the year ended December 31, 2016, compared to the year ended December 31, 2015, our operating income, excluding share-based and pre-offering related compensation expenses, decreased $55.5 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 $2.1 million and $11.3 million for the years ended December 31, 2016 and 2015, respectively. The $9.2 million decrease in net cash used in investing activities was primarily due to a $9.0 million decrease in net purchases of investment securities.

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 $277.7 million and $326.0 million for the years ended December 31, 2016 and 2015, respectively. The $48.3 million decrease in net cash used by financing activities was primarily the result of a $48.3 million decrease in distributions to limited partners and a $8.6 million decrease in dividends paid, partially offset by a $7.6 million increase in payments under the tax receivable agreements.

Year Ended December 31, 2015 Compared to Year Ended December 31, 2014

Operating activities provided net cash of $321.2 million and $351.6 million for the years ended December 31, 2015 and 2014, respectively. The $30.4 million decrease in net cash provided by operating activities was primarily due to decreased revenues and operating income resulting from the decrease in average AUM. For the year ended December 31, 2015, compared to the year ended December 31, 2014, our operating income, excluding share-based and pre-offering related compensation expenses, decreased $33.8 million.

Investing activities used net cash of $11.3 million and $7.8 million for the years ended December 31, 2015 and 2014, respectively. The $3.5 million increase in net cash used in investing activities was due to a $5.6 million increase in net purchases of investment securities, partially offset by a $2.3 million decrease in acquisitions of property and equipment and leasehold improvements.

Financing activities used net cash of $326.0 million and $373.3 million for the years ended December 31, 2015 and 2014, respectively. The $47.3 million decrease in net cash used by financing activities was primarily the result of an $84.7 million decrease in distributions to limited partners, partially offset by a $24.1 million increase in dividends paid and a $15.4 million increase in payments of amounts owed under the tax receivable agreements during the year ended December 31, 2015, compared to the year ended December 31, 2014.

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Certain Contractual Obligations

The following table sets forth our contractual obligations under certain contracts as of December 31, 2016.

	Payments Due by Period				
	Total	Less than 1 year	1-3 Years	3-5 Years	More than 5 Years
	(in millions)				
Principal payments on borrowings	$200.0	$ 60.0	$ 50.0	$ —	$90.0
TRAs (1)	586.2	—	—	—	—
Interest payable	42.5	11.0	15.8	10.5	5.2
Lease obligations	72.6	10.1	19.2	16.5	26.8
Partnership redemption payable	0.5	0.5	—	—	—
Total Contractual Obligations	$901.8	$ 81.6	$ 85.0	$ 27.0	$122.0

(1) The estimated payments under the TRAs as of December 31, 2016 are described above under "Liquidity and Capital Resources". However, amounts payable under the TRAs will increase upon exchanges of Holdings units for our Class A common stock or sales of Holdings units to us, with the increase representing 85% of the estimated future tax benefits, if any, resulting from the exchanges or sales. The actual amount and timing of payments associated with our existing payable under our tax receivable agreements or future exchanges or sales, and associated tax benefits, will vary depending upon a number of factors as described under "-Liquidity and Capital Resources." As a result, the timing of payments by period is currently unknown. We expect to pay approximately $30 million in 2017 related to the TRAs.

Off-Balance Sheet Arrangements

We did not have any off-balance sheet arrangements as of December 31, 2016.

Critical Accounting Policies and Estimates

The accompanying consolidated financial statements were prepared in accordance with GAAP, and related rules and regulations of the SEC. The preparation of financial statements in conformity with GAAP requires management to make estimates or assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods presented. Actual results could differ from these estimates or assumptions and may have a material effect on the consolidated financial statements. Accounting policies are an integral part of our financial statements. A thorough understanding of these accounting policies is essential when reviewing our reported results of operations and our financial condition. Management believes that the critical accounting policies and estimates discussed below involve additional management judgment due to the sensitivity of the methods and assumptions used.

Consolidation

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

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

Under the VOE model, controlling financial interest is generally defined as a majority ownership of voting interests. Variable Interest Entities-A VIE is an entity that lacks one or more of the characteristics of a VOE. In accordance with GAAP, an enterprise must consolidate all VIEs of which it is the primary beneficiary. We determine if a legal entity meets the definition of a VIE by considering whether the fund's equity investment at risk is sufficient to finance its activities without additional subordinated financial support and whether the fund's at-risk equity holders absorb any losses, have the right to receive residual returns and have the right to direct the activities of the entity most responsible for the entity's economic performance. Under the VIE model, controlling financial interest is defined as (i) the power to direct activities that most significantly impact the economic performance of the entity and (ii) the right to receive potentially significant benefits or the obligation to absorb potentially significant losses.

We serve as the investment adviser for Artisan Funds, a family of mutual funds registered with the SEC under the Investment Company Act of 1940, and investment manager of Artisan Global Funds, a family of Ireland-based UCITS. Artisan Funds and Artisan Global Funds are corporate entities the business and affairs of which are managed by their respective boards of directors. The shareholders of the funds retain all voting rights, including the right to elect and reelect members of their respective boards of directors. Each series of Artisan Funds is a VOE and is separately evaluated for consolidation under the VOE model. The shareholders of Artisan Global Funds lack simple majority liquidation rights, and as a result, Artisan Global Funds is evaluated for consolidation under the VIE model.
Seed Investments - We generally make initial seed investments in sponsored investment portfolios 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, we will consolidate the investment, and the underlying individual securities will be accounted for as trading securities. If the seed investment results in significant influence, but not control, the investment will be accounted for as an equity method investment. Significant influence is generally considered to exist with equity ownership levels between 20% and 50%, although other factors are considered. Seed investments in which we do not have a controlling financial interest or significant influence are classified as available-for-sale investments. These investments are measured at fair value in the Consolidated Statement of Financial Condition. Unrealized holding gains and losses for available-for-sale securities are excluded from earnings and reported in other comprehensive income until realized. Realized gains are recognized in non-operating income (loss). As of December 31, 2016, all of our seed investments were accounted for as available-for-sale securities.
Revenue Recognition
Investment management fees are generally computed as a percentage of assets under management and recognized as services are rendered. Fees for providing investment management services are computed and billed in accordance with the provisions of the applicable investment management agreements, generally on a monthly or quarterly basis. The investment management agreements for a small number of accounts provide for performance-based fees. Performance-based fees, if earned, are recognized on the contractually determined measurement date. Interest and dividend income is recognized when earned. Performance fees generally are not subject to clawback as a result of performance declines subsequent to the most recent measurement date. Investment management fees are presented net of cash rebates and fees waived pursuant to contractual expense limitations of the funds or voluntary waivers.
The investment management fees that we receive are calculated based on the values of the securities held in the accounts that we manage for our clients. For our U.S.-registered mutual fund clients and UCITS, including Artisan Funds and Artisan Global Funds, our fees are based on the values of the funds' assets as determined for purposes of calculating their net asset values.
Securities held by U.S.-registered mutual funds, including Artisan Funds, are generally valued at closing market prices, or if closing market prices are not readily available or are not considered reliable, at a fair value determined under procedures established by the fund's board (fair value pricing). A U.S.-registered mutual fund typically considers a closing market price not to be readily available, and therefore uses fair value pricing, if, among other things, the value of the security might have been materially affected by events occurring after the close of the market in which the security was principally traded but before the time for determination of the fund's net asset value. A subsequent event might be a company-specific development, a development affecting an entire market or region, or a development that might be expected to have global implications. A significant change in securities prices in U.S. markets may be deemed to be such a subsequent event with respect to non-U.S. securities.
Values of securities determined using fair value pricing are likely to be different than they would be if only closing market prices were used. As a result, over short periods of time, the revenues we generate from U.S.-registered mutual funds, including Artisan Funds, may be different than they would be if only closing prices were used in valuing portfolio securities. Over longer time periods, the differences in our fees resulting from fair value pricing are not material.
For our separate account clients other than U.S.-registered mutual funds, our fees may be based, at the client's option, on the values of the securities in the portfolios we manage as determined by the client (or its custodian or other service provider) or by us in accordance with valuation procedures we have adopted. The valuation procedures we have adopted generally use closing market prices in the markets in which the securities trade, without adjustment for

subsequent events except in unusual circumstances. We believe that our fees based on valuations determined under our procedures are not materially different from the fees we receive that are based on valuations determined by clients, their custodians or other service providers.
With the exception of the assets in our High Income strategy (which represented approximately 1.9% of our AUM at December 31, 2016), the portfolios of Artisan Funds and Artisan Global Funds, as well as the portfolios we manage for our separate account clients, are invested principally in publicly-traded equity securities for which public market values are readily available, with a portion of each portfolio held in cash or cash-like instruments.

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Income Taxes

We operate in numerous states and countries and must allocate our income, expenses, and earnings under the various laws and regulations of each of these taxing jurisdictions. Accordingly, our provision for income taxes represents our total estimate of the liability for income taxes that we have incurred in doing business each year in all of our locations. Annually, we file tax returns that represent our filing positions with each jurisdiction and settle our tax return liabilities. Each jurisdiction has the right to audit those tax returns and may take different positions with respect to income and expense allocations and taxable earnings determinations. Because the determination of our annual income tax provision is subject to judgments and estimates, actual results may vary from those recorded in our financial statements. We recognize additions to and reductions in income tax expense during a reporting period that pertains to prior period provisions as our estimated liabilities are revised and our actual tax returns and tax audits are completed. Our management is required to exercise judgment in developing our provision for income taxes, including the determination of deferred tax assets and liabilities and any valuation allowance that might be required against deferred tax assets. As of December 31, 2016, we have not recorded a valuation allowance on any deferred tax assets. In the event that sufficient taxable income of the same character does not result in future years, among other things, a valuation allowance for certain of our deferred tax assets may be required.

Payments pursuant to the Tax Receivable Agreements (“TRAs”)

We have recorded a liability of $586.2 million as of December 31, 2016, representing 85% of the estimated future tax benefits subject to the TRAs. The actual amount and timing of any payments under these agreements will vary depending upon a number of factors, including the timing of sales or exchanges by the holders of limited partnership units, the price of the Class A common stock at the time of such sales or exchanges, whether such sales or exchanges are taxable, the amount and timing of the taxable income APAM generates in the future and the tax rate then applicable and the portion of APAM’s payments under the TRAs constituting imputed interest or depreciable basis or amortizable basis. The expected payment obligation assumes no additional uncertain tax positions that would impact the TRAs.

New or Revised Accounting Standards

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

Item 7A. Qualitative and Quantitative Disclosures Regarding Market Risk

Market Risk

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

The value of our assets under management was $96.8 billion as of December 31, 2016. A 10% increase or decrease in the value of our assets under management, if proportionately distributed over all our investment strategies, products and client relationships, would cause an annualized increase or decrease in our revenues of approximately $72.6 million at our current weighted average fee rate of 75 basis points. Because of our declining rates of fee for larger relationships and differences in our rates of fee across investment strategies, a change in the composition of our assets under management, in particular an increase in the proportion of our total assets under management attributable to strategies, clients or relationships with lower effective rates of fees, could have a material negative impact on our overall weighted average rate of fee. The same 10% increase or decrease in the value of our total assets under management, if attributed entirely to a proportionate increase or decrease in the assets of each of the Artisan Funds and Artisan Global Funds, to which we provide a range of services in addition to those provided to separate accounts, would cause an annualized increase or decrease in our revenues of approximately $89.1 million at the Artisan Funds and Artisan Global Funds aggregate weighted average fee of 92 basis points. If the same 10% increase or decrease in the value of our total assets under management was attributable entirely to a proportionate increase or decrease in the assets of each separate account we manage, it would cause an annualized increase or decrease in our revenues of approximately $53.3 million at the current weighted average fee rate across all of our separate accounts of 55 basis points.

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

We also are subject to market risk from a decline in the prices of marketable securities that we own. The total value of marketable securities we owned was $6.3 million as of December 31, 2016. We invested in certain of Artisan Funds and Artisan Global Funds in amounts sufficient to cover certain organizational expenses and to ensure that the funds had sufficient assets at the commencement of their operations to build a viable investment portfolio. Assuming a 10% increase or decrease in the values of our total marketable securities, the fair value would increase or decrease by $0.6 million at December 31, 2016. Management regularly monitors the value of these investments; however, given their nature and relative size, we have not adopted a specific risk management policy to manage the associated market risk.

Due to the nature of our business, we believe that we do not face any material risk from inflation.

Exchange Rate Risk

A substantial portion of the accounts that we advise, or sub-advise, hold investments that are denominated in currencies other than the U.S. dollar. Movements in the rate of exchange between the U.S. dollar and the underlying foreign currency affect the values of assets held in accounts we manage, thereby affecting the amount of revenues we earn. The value of the assets we manage was $96.8 billion as of December 31, 2016. As of December 31, 2016, approximately 49% of our assets under management across our investment strategies were invested in strategies that primarily invest in securities of non-U.S. companies and approximately 43% of our assets under management were invested in securities denominated in currencies other than the U.S. dollar. To the extent our assets under management are denominated in currencies other than the U.S. dollar, the value of those assets under management will decrease with an increase in the value of the U.S. dollar, or increase with a decrease in the value of the U.S. dollar. Each investment team monitors its own exposure to exchange rate risk and makes decisions on how to manage that risk in the portfolios managed by that team. Because we believe that many of our clients invest in those strategies in order to gain exposure to non-U.S. currencies, or may implement their own hedging programs, we do not often hedge an investment portfolio's exposure to a non-U.S. currency.

We have not adopted a corporate-level risk management policy to manage this exchange rate risk. Assuming that 43% of our assets under management is invested in securities denominated in currencies other than the U.S. dollar and excluding the impact of any hedging arrangements, a 10% increase or decrease in the value of the U.S. dollar would decrease or increase the fair value of our assets under management by $4.2 billion, which would cause an annualized increase or decrease in revenues of approximately $31.2 million at our current weighted average fee rate of 75 basis points.

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

Interest Rate Risk

At certain times, we invest our available cash balances in money market mutual funds that invest primarily in U.S. Treasury or agency-backed money market instruments. These funds attempt to maintain a stable net asset value but interest rate changes or other market risks may affect the fair value of those funds' investments and, if significant, could result in a loss of investment principal. Interest rate changes affect the income we earn from our excess cash balances. As of December 31, 2016, we invested $64.2 million of our available cash in money market funds that invested solely in U.S. Treasuries. Given the current low yield on these funds, interest rate changes would not have a material impact on the income we earn from these investments. The remaining portion of our cash was held in demand deposit accounts.

Interest rate changes may affect the amount of our interest payments in connection with our revolving credit agreement, and thereby affect future earnings and cash flows. As of December 31, 2016, there were no borrowings outstanding under the revolving credit agreement.

Our High Income strategy, which had $1.9 billion of AUM as of December 31, 2016, invests in fixed income securities. The values of debt instruments held by the strategy may fall in response to increases in interest rates, which would reduce our revenues.

Item 8. Financial Information and Supplementary Data

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Report of Independent Registered Public Accounting Firm

To the Stockholders of Artisan Partners Asset Management Inc.

In our opinion, the accompanying consolidated statements of financial condition and the related consolidated statements of operations, of comprehensive income, of changes in stockholders' equity and of cash flows present fairly, in all material respects, the financial position of Artisan Partners Asset Management Inc. and its subsidiaries as of December 31, 2016 and 2015, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2016 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the Report of Management on Internal Control over Financial Reporting appearing under Item 9A "Controls and Procedures". Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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

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

/s/ PricewaterhouseCoopers LLP

Milwaukee, Wisconsin
February 21, 2017

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

	At December 31,	
	2016	2015
ASSETS		
Cash and cash equivalents	$156,777	$166,193
Accounts receivable	59,739	60,058
Investment securities	6,297	10,290
Prepaid expenses	8,654	7,474
Property and equipment, net	20,018	17,995
Restricted cash	629	889
Deferred tax assets	678,518	678,537
Other	5,534	4,410
Total assets	$936,166	$945,846
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable, accrued expenses, and other	$15,609	$18,052
Accrued incentive compensation	12,642	13,748
Deferred lease obligations	3,972	3,478
Borrowings	199,477	199,314
Class B redemptions payable	506	5,602
Amounts payable under tax receivable agreements	586,246	589,101
Total liabilities	$818,452	$829,295
Commitments and contingencies		
Common stock		
Class A common stock ($0.01 par value per share, 500,000,000 shares authorized, 42,149,436 and 39,432,605 shares outstanding at December 31, 2016 and December 31, 2015, respectively)	421	394
Class B common stock ($0.01 par value per share, 200,000,000 shares authorized, 15,142,049 and 18,327,222 shares outstanding at December 31, 2016 and December 31, 2015, respectively)	151	183
Class C common stock ($0.01 par value per share, 400,000,000 shares authorized, 17,063,384 and 15,649,101 shares outstanding at December 31, 2016 and December 31, 2015, respectively)	171	157
Additional paid-in capital	119,221	116,448
Retained earnings	13,395	13,238
Accumulated other comprehensive income (loss)	(1,648)	(375)
Total stockholders' equity	131,711	130,045
Noncontrolling interest - Artisan Partners Holdings	(13,997)	(13,494)
Total equity	$117,714	$116,551
Total liabilities and equity	$936,166	$945,846

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

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

	For the Years Ended December 31,		
	2016	2015	2014
Revenues			
Management fees	$719,778	$803,701	$827,651
Performance fees	1,081	1,768	1,050
Total revenues	$720,859	$805,469	$828,701
Operating Expenses			
Compensation and benefits			
Salaries, incentive compensation and benefits	355,835	372,167	350,302
Pre-offering related compensation - share-based awards	28,080	42,071	64,664
Total compensation and benefits	383,915	414,238	414,966
Distribution and marketing	32,516	43,626	49,132
Occupancy	13,076	12,504	11,255
Communication and technology	32,125	25,487	21,002
General and administrative	24,993	27,229	25,443
Total operating expenses	486,625	523,084	521,798
Total operating income	234,234	282,385	306,903
Non-operating income (loss)			
Interest expense	(11,653)	(11,706)	(11,572)
Net investment income and other	1,253	445	399
Net gain (loss) on the tax receivable agreements	650	(12,247)	(4,187)
Total non-operating income (loss)	(9,750)	(23,508)	(15,360)
Income before income taxes	224,484	258,877	291,543
Provision for income taxes	51,483	46,771	48,829
Net income before noncontrolling interests	173,001	212,106	242,714
Less: Net income attributable to noncontrolling interests - Artisan Partners Holdings	99,971	130,305	173,085
Net income attributable to Artisan Partners Asset Management Inc.	$73,030	$81,801	$69,629
Basic and diluted earnings (loss) per share	$1.57	$1.86	$(0.37)
Basic and diluted weighted average number of common shares outstanding	38,137,810	35,448,550	27,514,394
Dividends declared per Class A common share	$2.80	$3.35	$3.83

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

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

	For the Years Ended December 31,		
	2016	2015	2014
Net income before noncontrolling interests	$173,001	$212,106	$242,714
Other comprehensive income (loss), net of tax			
Unrealized gain (loss) on investment securities:			
Unrealized holding gain (loss) on investment securities, net of tax of ($20), ($146) and ($16), respectively	974	(301)	(241)
Less: reclassification adjustment for net gains included in net income	1,073	424	295
Net unrealized gain (loss) on investment securities	(99)	(725)	(536)
Foreign currency translation gain (loss)	(2,130)	(586)	(510)
Total other comprehensive income (loss)	(2,229)	(1,311)	(1,046)
Comprehensive income	170,772	210,795	241,668
Comprehensive income attributable to noncontrolling interests - Artisan Partners Holdings	99,015	129,574	172,211
Comprehensive income attributable to Artisan Partners Asset Management Inc.	$71,757	$81,221	$69,457

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

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

	Class A Common Stock	Class B Common Stock	Class C Common Stock	Convertible Preferred Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Noncontrolling interest - Artisan Partners Holdings	Total Equity
Balance at January 1, 2014	$ 198	$ 253	$ 252	$ 34,909	$ 6,388	$ 1,401	$ 378	$ 38,060	$ 81,839
Net income (loss)	—	—	—	—	—	69,629	—	173,085	242,714
Other comprehensive income - foreign currency translation	—	—	—	—	—	—	(255)	(255)	(510)
Other comprehensive income - available for sale investments, net of tax	—	—	—	—	—	—	(175)	(243)	(418)
Cumulative impact of changes in ownership of Artisan Partners Holdings LP, net of tax	—	—	—	—	(10,481)	—	258	10,105	(118)
Amortization of equity-based compensation	—	—	—	—	36,175	—	—	52,081	88,256
Deferred tax assets, net of amounts payable under tax receivable agreements	—	—	—	—	64,520	—	—	—	64,520
Issuance of Class A common stock, net of issuance costs	111	—	—	—	552,178	—	—	—	552,289
Issuance of restricted stock awards	14	—	—	—	(14)	—	—	—	—
Employee net share settlement	—	—	—	—	(136)	—	—	(166)	(302)
Purchase of equity and subsidiary equity	—	(38)	(47)	(21,652)	(533,204)	—	—	812	(554,129)
Conversion of preferred stock and exchange of subsidiary equity	19	—	(33)	(13,257)	23,289	—	—	(10,018)	—
Distributions	—	—	—	—	—	—	—	(266,838)	(266,838)
Dividends	—	—	—	—	(45,191)	(54,613)	—	—	(99,804)
Balance at December 31, 2014	$ 342	$ 215	$ 172	$ —	$ 93,524	$ 16,417	$ 206	$ (3,377)	$ 107,499
Net income	—	—	—	—	—	81,801	—	130,305	212,106
Other comprehensive income - foreign currency translation	—	—	—	—	—	—	(303)	(283)	(586)
Other comprehensive income - available for sale investments, net of tax	—	—	—	—	—	—	(307)	(383)	(690)
	—	—	—	—	(5,463)	—	29	5,399	(35)

Cumulative impact of changes in ownership of Artisan Partners Holdings LP, net of tax									
Amortization of equity-based compensation	—	—	—	—	42,144	—	—	37,376	79,520
Deferred tax assets, net of amounts payable under tax receivable agreements	—	—	—	—	26,075	—	—	—	26,075
Issuance of Class A common stock, net of issuance costs	38	—	—	—	175,974	—	—	—	176,012
Forfeitures	—	(4)	3	—	1	—	—	—	—
Issuance of restricted stock awards	6	—	—	—	(6)	—	—	—	—
Employee net share settlement	—	—	—	—	(358)	—	—	(311)	(669)
Exchange of subsidiary equity	8	(4)	(4)	—	—	—	—	—	—
Purchase of equity and subsidiary equity	—	(24)	(14)	—	(176,520)	—	—	—	(176,558)
Distributions	—	—	—	—	—	—	—	(182,175)	(182,175)
Dividends	—	—	—	—	(38,923)	(84,980)	—	(45)	(123,948)
Balance at December 31, 2015	$ 394	$ 183	$ 157	$ —	$ 116,448	$ 13,238	$ (375)	$ (13,494)	$ 116,551

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

	Class A Common Stock	Class B Common Stock	Class C Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Noncontrolling 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 (loss)	—	—	—	—	73,030	—	99,971	173,001
Other comprehensive income - foreign currency translation	—	—	—	—	—	(1,192)	(938)	(2,130)
Other comprehensive income - available for sale investments, net of tax	—	—	—	—	—	(30)	(64)	(94)
Cumulative impact of changes in ownership of Artisan Partners Holdings LP, net of tax	—	—	—	(3,332)	—	(51)	3,378	(5)
Amortization of equity-based compensation	—	—	—	40,923	(408)	—	31,481	71,996
Deferred tax assets, net of amounts payable under tax receivable agreements	—	—	—	8,439	—	—	—	8,439
Issuance of Class A common stock, net of issuance costs	—	—	—	(22)	—	—	—	(22)
Forfeitures	—	(17)	15	2	—	—	—	—
Issuance of restricted stock awards	11	—	—	(11)	—	—	—	—
Employee net share settlement	—	—	—	(422)	—	—	(340)	(762)
Exchange of subsidiary equity	16	(15)	(1)	—	—	—	—	—
Distributions	—	—	—	—	—	—	(133,876)	(133,876)
Dividends	—	—	—	(42,804)	(72,465)			