

Artisan Partners Asset Management Inc.
Form 10-Q
November 02, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2015

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

Commission file number: 001-35826

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

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

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

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

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

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

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

The number of outstanding shares of the registrant’s Class A common stock, par value \$0.01 per share, Class B common stock, par value \$0.01 per share, and Class C common stock, par value \$0.01 per share, as of October 29, 2015 were 39,411,178, 18,327,222 and 15,670,672, respectively.

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

Forward-Looking Statements

This report contains, and from time to time our management may make, forward-looking statements within the meaning of the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. In some cases, you can identify these statements by forward-looking words such as "may", "might", "will", "should", "expects", "intends", "p", "anticipates", "believes", "estimates", "predicts", "potential" or "continue", the negative of these terms and other comparable terminology. These forward-looking statements, which are subject to risks, uncertainties and assumptions, may include projections of our future financial performance, future expenses, anticipated growth strategies, descriptions of new business initiatives and anticipated trends in our business or financial results. These statements are only predictions based on our current expectations and projections about future events. Among the important factors that could cause actual results, level of activity, performance or achievements to differ materially from those indicated by such forward-looking statements are: fluctuations in quarterly and annual results, adverse economic or market conditions, incurrence of net losses, adverse effects of management focusing on implementation of a growth strategy, failure to develop and maintain the Artisan Partners brand and other factors disclosed under "Risk Factors" in Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2014, filed with the SEC on February 25, 2015, which is accessible on the SEC's website at www.sec.gov. We undertake no obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise, except as required by law.

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

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

Item 1. Unaudited Consolidated Financial Statements

ARTISAN PARTNERS ASSET MANAGEMENT INC.

Unaudited Condensed Consolidated Statements of Financial Condition

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

	September 30, 2015	December 31, 2014
ASSETS		
Cash and cash equivalents	\$217,671	\$182,284
Accounts receivable	67,568	69,361
Investment securities	9,839	6,712
Property and equipment, net	15,595	16,594
Deferred tax assets	687,060	562,396
Prepaid expenses and other assets	13,096	12,105
Total assets	\$1,010,829	\$849,452
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable, accrued expenses, and other	\$27,957	\$39,826
Accrued incentive compensation	75,823	12,973
Borrowings	200,000	200,000
Amounts payable under tax receivable agreements	588,746	489,154
Total liabilities	892,526	741,953
Commitments and contingencies		
Common stock		
Class A common stock (\$0.01 par value per share, 500,000,000 shares authorized, 39,411,178 and 34,238,131 shares outstanding at September 30, 2015 and December 31, 2014, respectively)	394	342
Class B common stock (\$0.01 par value per share, 200,000,000 shares authorized, 18,327,222 and 21,463,033 shares outstanding at September 30, 2015 and December 31, 2014, respectively)	183	215
Class C common stock (\$0.01 par value per share, 400,000,000 shares authorized, 15,670,672 and 17,226,379 shares outstanding at September 30, 2015 and December 31, 2014, respectively)	157	172
Additional paid-in capital	111,353	93,524
Retained earnings	10,732	16,417
Accumulated other comprehensive income (loss)	(368	) 206
Total stockholders' equity	122,451	110,876
Noncontrolling interest - Artisan Partners Holdings	(4,148	) (3,377
Total equity	118,303	107,499
Total liabilities and equity	\$1,010,829	\$849,452

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

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ARTISAN PARTNERS ASSET MANAGEMENT INC.

Unaudited Consolidated Statements of Operations

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2015	2014	2015	2014
Revenues				
Management fees	\$ 198,233	\$ 212,225	\$ 611,888	\$ 622,350
Performance fees	80	181	1,573	335
Total revenues	\$ 198,313	\$ 212,406	\$ 613,461	\$ 622,685
Operating Expenses				
Compensation and benefits				
Salaries, incentive compensation and benefits	91,159	90,743	283,294	261,893
Pre-offering related compensation - share-based awards	10,532	12,431	31,596	52,234
Total compensation and benefits	101,691	103,174	314,890	314,127
Distribution and marketing	10,612	13,281	34,010	36,348
Occupancy	3,113	2,811	9,079	8,265
Communication and technology	6,339	5,735	17,993	15,694
General and administrative	6,003	6,389	20,792	19,258
Total operating expenses	127,758	131,390	396,764	393,692
Total operating income	70,555	81,016	216,697	228,993
Non-operating income (loss)				
Interest expense	(2,971)	(2,905)	(8,828)	(8,690)
Net Investment Income	8	405	424	405
Net gain (loss) of Launch Equity	—	(557)	—	(2,039)
Net gain (loss) on the tax receivable agreements	(5,820)	284	(12,247)	(4,187)
Other non-operating income (expense)	6	217	15	(54)
Total non-operating income (loss)	(8,777)	(2,556)	(20,636)	(14,565)
Income before income taxes	61,778	78,460	196,061	214,428
Provision for income taxes	11,630	15,335	33,209	35,193
Net income before noncontrolling interests	50,148	63,125	162,852	179,235
Less: Net income attributable to noncontrolling interests - Artisan Partners Holdings	31,674	43,243	101,128	132,939
Less: Net income (loss) attributable to noncontrolling interests - Launch Equity	—	(557)	—	(2,039)
Net income attributable to Artisan Partners Asset Management Inc.	\$ 18,474	\$ 20,439	\$ 61,724	\$ 48,335
Basic and diluted earnings (loss) per share	\$ 0.44	\$ 0.57	\$ 1.38	\$ (1.02)
Basic and diluted weighted average number of common shares outstanding	36,430,820	30,370,892	35,032,841	26,177,724
Dividends declared per Class A common share	\$ 0.60	\$ 0.55	\$ 2.75	\$ 3.28

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

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2015	2014	2015	2014
Net income before noncontrolling interests	\$50,148	\$63,125	\$162,852	\$179,235
Other comprehensive income (loss), net of tax				
Unrealized gain (loss) on investment securities:				
Unrealized gain (loss) on investment securities, net of tax of (\$305), (\$138), (\$236) and \$18, respectively	(1,227	) (423	) (664	) (117
Less: reclassification adjustment for gain (loss) included in net income	8	405	424	405
Net unrealized gain (loss) on investment securities	(1,235	) (828	) (1,088	) (522
Foreign currency translation gain (loss)	(402	) (458	) (290	) (190
Total other comprehensive income (loss)	(1,637	) (1,286	) (1,378	) (712
Comprehensive income	48,511	61,839	161,474	178,523
Comprehensive income attributable to noncontrolling interests - Artisan Partners Holdings	30,773	42,401	100,325	132,245
Comprehensive income (loss) attributable to noncontrolling interests - Launch Equity	—	(557	) —	(2,039
Comprehensive income attributable to Artisan Partners Asset Management Inc.	\$17,738	\$19,995	\$61,149	\$48,317

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

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ARTISAN PARTNERS ASSET MANAGEMENT INC.

Unaudited Consolidated Statements of Changes in Stockholders' Equity

(U.S. dollars in thousands)

	Class A Common stock	Class B Common stock	Class C Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Non-controlling interest - Artisan Partners Holdings	Total equity
Balance at January 1, 2015	342	215	172	93,524	16,417	206	(3,377)	107,499
Net income	—	—	—	—	61,724	—	101,128	162,852
Other comprehensive income - foreign currency translation	—	—	—	—	—	(144)	(146)	(290)
Other comprehensive income - available for sale investments, net of tax	—	—	—	—	—	(459)	(592)	(1,051)
Cumulative impact of changes in ownership of Artisan Partners Holdings LP, net of tax	—	—	—	(6,105)	—	29	6,039	(37)
Amortization of equity-based compensation	—	—	—	31,504	—	—	28,307	59,811
Deferred tax assets, net of amounts payable under tax receivable agreements	—	—	—	26,158	—	—	—	26,158
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	—	—	—	—	—	—	(135,174)	(135,174)
Dividends	—	—	—	(32,819)	(67,409)	—	(22)	(100,250)
Balance at September 30, 2015	\$ 394	\$ 183	\$ 157	\$ 111,353	\$ 10,732	\$ (368)	\$ (4,148)	\$ 118,303

	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)	Non-controlling interest - Artisan Partners Holdings	Non-controlling interest - Launch Equity	Total equity
Balance at January 1, 2014	\$ 198	\$ 253	\$ 252	\$ 34,909	\$ 6,388	\$ 1,401	\$ 378	\$ 38,060	\$ 50,472	\$ 132,311
Net income (loss)	—	—	—	—	—	48,335	—	132,939	(2,039)	179,235
Other comprehensive income - foreign currency translation	—	—	—	—	—	—	(105)	(85)	—	(190)
	—	—	—	—	—	—	(171)	(236)	—	(407)

Other comprehensive income - available for sale investments, net of tax										
Cumulative impact of changes in ownership of Artisan Partners Holdings LP, net of tax	—	—	—	—	(12,323)	—	258	11,950	—	(115)
Capital contribution	—	—	—	—	—	—	—	—	2,980	2,980
Amortization of equity-based compensation	—	—	—	—	26,716	—	—	41,392	—	68,108
Deferred tax assets, net of amounts payable under tax receivable agreements	—	—	—	—	61,194	—	—	—	—	61,194
Issuance of Class A common stock, net of issuance costs	125	—	—	—	552,164	—	—	—	—	552,289
Purchase of convertible preferred stock and subsidiary equity	—	(38)	(47)	(21,652)	(533,340)	—	—	647	—	(554,430)
Conversion of preferred stock and exchange of subsidiary	18	—	(32)	(13,257)	23,289	—	—	(10,018)	—	—
Distributions	—	—	—	—	—	—	—	(213,555)	—	(213,555)
Dividends	—	—	—	—	(45,191)	(35,858)	—	—	—	(81,049)
Balance at September 30, 2014	\$341	\$215	\$173	\$—	\$78,897	\$13,878	\$360	\$1,094	\$51,413	\$146,371

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

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ARTISAN PARTNERS ASSET MANAGEMENT INC.

Unaudited Consolidated Statements of Cash Flows

(U.S. dollars in thousands)

	For the Nine Months Ended September 30,	
	2015	2014
Cash flows from operating activities		
Net income before noncontrolling interests	\$ 162,852	\$ 179,235
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,177	2,293
Deferred income taxes	8,131	10,863
Reinvested dividends	—	(213)
Capital gains on the sale of investment securities	(424)	(405)
Net loss on the tax receivable agreements	12,247	4,187
(Gains) losses of Launch Equity, net	—	2,039
Proceeds from sale of investments by Launch Equity	—	93,146
Purchase of investments by Launch Equity	—	(77,598)
Loss on disposal of property and equipment	26	349
Amortization of debt issuance costs	336	336
Share-based compensation	59,811	68,108
Excess tax benefit on share-based awards	(984)	(901)
Change in assets and liabilities resulting in an increase (decrease) in cash:		
Net change in operating assets and liabilities of Launch Equity	—	(18,528)
Accounts receivable	1,793	(3,436)
Prepaid expenses and other assets	(1,811)	(1,626)
Accounts payable and accrued expenses	58,580	73,304
Class B liability awards	(5,008)	(5,054)
Deferred lease obligations	(97)	16
Net cash provided by operating activities	298,629	326,115
Cash flows from investing activities		
Acquisition of property and equipment	(1,668)	(3,767)
Leasehold improvements	(1,963)	(4,095)
Proceeds from sale of property and equipment	—	4
Proceeds from sale of investment securities	2,724	6,156
Purchase of investment securities	(6,750)	(10,021)
Change in restricted cash	36	260
Net cash used in investing activities	(7,621)	(11,463)

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

	For the Nine Months Ended September 30,	
	2015	2014
Cash flows from financing activities		
Partnership distributions	(135,174)	(213,555)
Dividends paid	(100,250)	(81,049)
Change in other liabilities	(45)	(49)
Payment of amounts owed under the tax receivable agreements	(20,040)	(4,645)
Net proceeds from issuance of common stock	176,558	554,129
Payment of costs directly associated with the issuance of Class A common stock	(427)	(2,797)
Purchase of equity and subsidiary equity	(176,558)	(554,129)
Taxes paid related to employee net share settlement	(669)	(302)
Capital invested into Launch Equity	—	2,980
Excess tax benefit on share-based awards	984	901
Net cash used in financing activities	(255,621)	(298,516)
Net increase (decrease) in cash and cash equivalents	35,387	16,136
Cash and cash equivalents		
Beginning of period	182,284	211,839
End of period	\$217,671	\$227,975
Supplementary information		
Noncash activity:		
Establishment of deferred tax assets	132,559	386,324
Establishment of amounts payable under tax receivable agreements	107,385	326,048

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

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ARTISAN PARTNERS ASSET MANAGEMENT INC.

Notes to Unaudited Consolidated Financial Statements

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

Note 1. Nature of Business and Organization

Nature of Business

Artisan Partners Asset Management, Inc. (“APAM” or “Artisan”) is an investment management firm focused on providing high-value added, active investment strategies to sophisticated clients globally. Artisan has seven autonomous investment teams that manage fifteen distinct investment strategies. During the second quarter of 2015, Artisan launched its fifteenth investment strategy, the Artisan Partners Developing World strategy, which is managed by the firm’s Developing World team.

Strategies are offered through multiple investment vehicles to accommodate a broad range of client mandates. Artisan offers its investment management services primarily to institutions and through intermediaries that operate with institutional-like decision-making processes and have long-term investment horizons.

Organization

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

As the sole general partner, APAM controls the business and affairs of Holdings. As a result, APAM consolidates Holdings’ financial statements and records a noncontrolling interest for the equity interests in Holdings held by the limited partners of Holdings. At September 30, 2015, APAM held approximately 54% of the total equity ownership interests in Holdings.

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

2015 Follow-On Offering

On March 9, 2015, APAM completed a registered offering of 3,831,550 shares of Class A common stock (the “2015 Follow-On Offering”) and utilized all of the proceeds to purchase an aggregate of 3,831,550 common units of Artisan Partners Holdings at a price per unit of \$46.08. The offering and subsequent purchase of units had the following impact on the consolidated financial statements:

APAM received 3,831,550 GP units of Holdings, which increased APAM’s equity ownership interest in Holdings. See Note 6, “Noncontrolling interest - Holdings” for the financial statement impact of changes in ownership.

APAM’s purchase of common units of Holdings with the proceeds resulted in an increase to deferred tax assets of approximately \$105.1 million and an increase in amounts payable under the tax receivable agreements of approximately \$89.4 million.

The shares of Class B and Class C common stock associated with the common units purchased were immediately canceled upon completion of the offering.

Holdings Unit Exchanges

During the nine months ended September 30, 2015, certain limited partners of Artisan Partners Holdings exchanged common units (along with a corresponding number of shares of Class B or C common stock of APAM) for shares of Class A common stock (the “Holdings Common Unit Exchanges”). The following common units were exchanged for APAM Class A common stock during the nine months ended September 30, 2015:

Total Common Units Exchanged	Class A Common	Class B Common	Class E Common
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			Units	Units
Common units exchanged on March 9, 2015	527,012	169,474	332,538	25,000
Common units exchanged on May 21, 2015	132,961	127,729	5,232	—
Common units exchanged on August 20, 2015	145,265	127,730	17,535	—
Total Units Exchanged	805,238	424,933	355,305	25,000

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The Holdings Common Unit Exchanges increased APAM's equity ownership interest in Holdings, and resulted in a combined increase to deferred tax assets of approximately \$21.2 million and an increase in amounts payable under the tax receivable agreements of approximately \$18.0 million. The corresponding shares of Class B and Class C common stock were immediately canceled upon exchange.

Note 2. Summary of Significant Accounting Policies

Basis of presentation

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

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

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

Principles of consolidation

Artisan's policy is to consolidate all subsidiaries or other entities in which it has a controlling financial interest and variable interest entities ("VIEs") of which Artisan is deemed to be the primary beneficiary. The primary beneficiary is deemed to be the entity that has the power to govern the financial and operating policies of the subsidiary so as to obtain benefits from its activities. The consolidated financial statements include the accounts of APAM, all subsidiaries or other entities in which APAM has a direct or indirect controlling financial interest and VIEs of which Artisan is deemed to be the primary beneficiary. All material intercompany balances have been eliminated in consolidation.

The Company makes initial seed investments in sponsored investment portfolios at the portfolio's formation. If the seed investment results in a controlling financial interest, APAM consolidates the investment, and the underlying individual securities are accounted for as trading securities. Seed investments in which the Company does not have a controlling financial interest are classified as available-for-sale investments. As of September 30, 2015, APAM does not have a controlling financial interest in any of the funds in which it has made a seed investment.

Recent accounting pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), which supersedes existing accounting standards for revenue recognition and creates a single framework. In August 2015, the effective date of the ASU was deferred. The new guidance will now be effective on January 1, 2018 with early adoption permitted as of the original effective date of January 1, 2017. The Company is currently evaluating its transition method and the potential impact on its consolidated financial statements.

In August 2014, the FASB issued ASU 2014-15, Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. The ASU will explicitly require management to assess an entity's ability to continue as a going concern, and to provide related footnote disclosure in certain circumstances. The new guidance will be effective for the year ending December 31, 2016. Early adoption is permitted. The Company does not expect the adoption of this ASU to have an impact on its consolidated financial statements.

In February 2015, the FASB issued ASU 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis. The ASU modifies existing consolidation guidance for determining whether certain legal entities should be consolidated. The ASU eliminates the deferral under ASU 2010-10, Consolidation - Amendments for Certain Investment Funds, and, as a result, the Company must apply the new guidance to all entities, including investment companies. The presumption that a general partner controls a limited partnership has been eliminated. In addition, fees

paid to decision makers that meet certain conditions no longer cause the decision makers to consolidate VIEs, in certain instances. The new guidance will be effective on January 1, 2016, and requires either a retrospective or a modified retrospective approach to adoption. Early adoption is permitted. The Company is currently evaluating its transition method and the potential impact on its consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs, which requires debt issuance costs to be presented in the balance sheet as a direct deduction from the note liability, rather than presented as an asset. The new guidance will be effective on January 1, 2016, and requires a retrospective approach to adoption. At September 30, 2015, the Company had approximately \$0.7 million of debt issuance costs in prepaid expenses and other assets on its Condensed Consolidated Statements of Financial Condition that meet the criteria of this amendment.

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In April 2015, the FASB issued ASU 2015-05, Customer's Accounting for Fees Paid in a Cloud Computing Arrangement, which provides guidance on determining whether a cloud computing arrangement contains a software license that should be accounted for as internal-use software. The new guidance will be effective on January 1, 2016. Early adoption is permitted. The Company does not expect the adoption of this ASU to have an impact on its consolidated financial statements.

Note 3. Investment Securities

The disclosures below include details of Artisan's investments.

	Cost	Unrealized Gains	Unrealized Losses	Fair Value
September 30, 2015				
Mutual funds	\$10,069	\$581	\$(811)	) \$9,839
December 31, 2014				
Mutual funds	\$5,618	\$1,096	\$(2)	) \$6,712

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

As of September 30, 2015 and December 31, 2014, the total fair value of investments in an unrealized loss position was \$4.2 million and \$38 thousand, respectively. The \$811 thousand and \$2 thousand unrealized losses on available-for-sale securities are considered temporary, based on the severity and duration of the unrealized losses. No impairment losses were recorded on these available-for-sale securities.

During the nine months ended September 30, 2015, Artisan made seed investments of \$6.8 million, including a \$5.0 million investment in the Artisan Developing World Fund. During the nine months ended September 30, 2015, Artisan sold \$2.7 million of its investments, resulting in realized gains of \$0.4 million. During the nine months ended September 30, 2014, Artisan sold \$6.2 million of its investments, resulting in a realized gain of \$0.4 million.

Note 4. Fair Value Measurements

The table below presents information about Artisan's assets and liabilities that are measured at fair value and the valuation techniques Artisan utilized to determine such fair value.

In accordance with ASC 820, fair value is defined as the price that Artisan would receive upon selling an investment in an orderly transaction to an independent buyer in the principal or most advantageous market for the investment. The following three-tier fair value hierarchy prioritizes the inputs used in measuring fair value:

- Level 1 – Observable inputs such as quoted (unadjusted) market prices in active markets for identical securities.
- Level 2 – Other significant observable inputs (including but not limited to quoted prices for similar instruments, interest rates, prepayment speeds, credit risk, etc.).
- Level 3—Significant unobservable inputs (including Artisan's own assumptions in determining fair value).

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The following provides the hierarchy of inputs used to derive fair value of Artisan's assets and liabilities that are financial instruments as of September 30, 2015 and December 31, 2014:

	Assets and Liabilities at Fair Value			
	Total	Level 1	Level 2	Level 3
September 30, 2015				
Assets				
Cash equivalents	\$ 109,004	\$ 109,004	\$—	\$—
Mutual funds	9,839	9,839	—	—
December 31, 2014				
Assets				
Cash equivalents	\$44,004	\$44,004	\$—	\$—
Mutual funds	6,712	6,712	—	—

Fair values determined based on Level 1 inputs utilize quoted market prices for identical assets. Level 1 assets generally consist of money market funds, marketable open-end mutual funds or Undertakings for Collective Investment in Transferable Securities ("UCITS"). There were no Level 2 or Level 3 assets or liabilities recorded at fair value as of September 30, 2015 and December 31, 2014.

Artisan's policy is to recognize transfers in and transfers out of the valuation levels as of the beginning of the reporting period. There were no transfers between Level 1, Level 2 or Level 3 securities during the nine months ended September 30, 2015 and 2014.

Note 5. Borrowings

Artisan's borrowings consist of the following as of September 30, 2015 and December 31, 2014:

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

The fair value of borrowings was approximately \$198.3 million as of September 30, 2015. Fair value was determined based on future cash flows, discounted to present value using current market interest rates. The inputs are categorized as Level 2 in the fair value hierarchy, as defined in Note 4, "Fair Value Measurements".

Interest expense incurred on the unsecured notes and revolving credit agreement was \$2.8 million and \$8.3 million for the three and nine months ended September 30, 2015 and 2014, respectively.

As of September 30, 2015, the aggregate maturities of debt obligations, based on their contractual terms, are as follows:

2015	\$—
2016	—
2017	60,000
2018	—
2019	50,000
Thereafter	90,000
	\$200,000

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Note 6. Noncontrolling interest - Holdings

Holdings is the predecessor of APAM for accounting purposes, and its consolidated financial statements are Artisan's historical financial statements for periods prior to March 12, 2013, the date on which APAM became the general partner of Holdings. As of September 30, 2015, APAM held approximately 54% of the economic interests in Holdings.

Net income (loss) attributable to noncontrolling interests - Artisan Partners Holdings in the Unaudited Consolidated Statements of Operations represents the portion of earnings or loss attributable to the economic interests in Holdings held by the limited partners of Holdings.

During the nine months ended September 30, 2015, APAM's equity ownership interest in Holdings increased from 47% to 54%, due to the following transactions:

• The issuance of 562,950 Holdings GP units corresponding to 562,950 restricted shares of Class A common stock issued by APAM during the period.

• The issuance of 3,831,550 Holdings GP units and cancellation of 3,831,550 Holdings common units, in connection with the 2015 Follow-On Offering.

• The issuance of 805,238 Holdings GP units and cancellation of 805,238 Holdings common units, in connection with the Holdings Common Unit Exchanges.

• The forfeiture of 54,730 Holdings common units as a result of the termination of employment of employee-partners. Since APAM continues to have a controlling interest in Holdings, changes in ownership of Holdings are accounted for as equity transactions. Additional paid-in capital and Noncontrolling interest - Artisan Partners Holdings in the Unaudited Condensed Consolidated Statements of Financial Condition are adjusted to reallocate Holdings' historical equity to reflect the change in APAM's ownership of Holdings.

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

Statement of Financial Condition	For the Nine Months Ended September 30,	
	2015	2014
Additional paid-in capital	\$(6,105)	\$(12,323)
Noncontrolling interest - Artisan Partners Holdings	6,039	11,950
Accumulated other comprehensive income	29	258
Deferred tax assets	37	115
Net balance sheet impact	—	—

In addition to the reallocation of historical equity, the change in ownership resulted in an increase to deferred tax assets and additional paid in capital of \$6.2 million for the nine months ended September 30, 2015 and \$2.8 million for the nine months ended September 30, 2014.

Note 7. Variable and Voting Interest Entities

Artisan Funds and Artisan Global Funds

Artisan serves as the investment adviser for Artisan Partners Funds, Inc. ("Artisan Funds"), a family of mutual funds registered with the SEC under the Investment Company Act of 1940, and Artisan Partners Global Funds plc ("Artisan Global Funds"), a family of Ireland-based UCITS. Artisan Funds and Artisan Global Funds are corporate entities the business and affairs of which are managed by their respective boards of directors. The shareholders of the funds retain all voting rights, including the right to elect and reelect members of their respective boards of directors. As a result, each of these entities is a voting interest entity ("VOE"). While Artisan holds, in limited cases, direct investments in a fund (which are made on the same terms as are available to other investors and do not represent a majority voting interest in any entity), Artisan does not have a controlling financial interest or a majority voting interest and, as such, does not consolidate these entities.

Artisan Partners Launch Equity LP

Prior to December 2014, Artisan had an agreement to serve as the investment manager of Artisan Partners Launch Equity Fund LP ("Launch Equity"), which was a private investment partnership in which the investors were certain employees or former employees (or entities beneficially owned by such persons) of Artisan Partners Holdings. Artisan

Partners Alternative Investments GP LLC (“Artisan Alternatives”), a wholly-owned subsidiary of Holdings, was the general partner of Launch Equity.

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In December 2014, Launch Equity was liquidated and the net assets were distributed as a return of capital to all limited partners of the fund, including Artisan Partners Alternative Investments GP LLC, which received proceeds of \$1 thousand. The fair value of the consideration distributed was equal to the carrying amount of Launch Equity's net assets on the date of liquidation. As a result, no gain or loss was recorded in connection with the transaction. Prior to the dissolution, Launch Equity was determined to be a variable interest entity ("VIE") which required consolidation within Artisan's consolidated financial statements. Artisan's maximum exposure to investment loss from its involvement with Launch Equity was limited to its equity investment of \$1 thousand while the potential benefit was limited to the management fee and incentive allocation receivable as investment adviser and general partner. Therefore, the gains or losses of Launch Equity have not had a significant impact on Artisan's results of operations, liquidity or capital resources. Artisan had no right to the benefits from, nor did it bear the risks associated with, Launch Equity's investments, beyond Artisan's minimal direct investment in Launch Equity. The following tables reflect the impact of consolidating Launch Equity's results into the Unaudited Consolidated Statement of Operations for the three and nine months ended September 30, 2014.

Condensed Consolidating Statements of Operations

	Three Months Ended September 30, 2014			As Reported
	Before Consolidation	Launch Equity	Eliminations	
Total revenues	\$212,535	\$—	\$(129)	\$212,406
Total operating expenses	131,519	—	(129)	131,390
Operating income (loss)	81,016	—	—	81,016
Non-operating income (loss)	(1,999)	—	—	(1,999)
Net gain (loss) of Launch Equity	—	(557)	—	(557)
Total non-operating income (loss)	(1,999)	(557)	—	(2,556)
Income (loss) before income taxes	79,017	(557)	—	78,460
Provision for income taxes	15,335	—	—	15,335
Net income (loss)	63,682	(557)	—	63,125
Less: Net income (loss) attributable to noncontrolling interests - Artisan Partners Holdings	43,243	—	—	43,243
Less: Net income (loss) attributable to noncontrolling interests - Launch Equity	—	(557)	—	(557)
Net income attributable to Artisan Partners Asset Management Inc.	\$20,439	\$—	\$—	\$20,439

Condensed Consolidating Statements of Operations

	Nine Months Ended September 30, 2014			As Reported
	Before Consolidation	Launch Equity	Eliminations	
Total revenues	\$623,073	\$—	\$(388)	\$622,685
Total operating expenses	394,080	—	(388)	393,692
Operating income (loss)	228,993	—	—	228,993
Non-operating income (loss)	(12,526)	—	—	(12,526)
Net gain (loss) of Launch Equity	—	(2,039)	—	(2,039)
Total non-operating income (loss)	(12,526)	(2,039)	—	(14,565)
Income (loss) before income taxes	216,467	(2,039)	—	214,428
Provision for income taxes	35,193	—	—	35,193
Net income (loss)	181,274	(2,039)	—	179,235
Less: Net income (loss) attributable to noncontrolling interests - Artisan Partners Holdings	132,939	—	—	132,939

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Less: Net income (loss) attributable to noncontrolling interests - Launch Equity	—	(2,039)	—	(2,039)
Net income attributable to Artisan Partners Asset Management Inc.	\$48,335	\$—	\$—	\$ 48,335

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Note 8. Stockholders' Equity

APAM - Stockholders' Equity

As of September 30, 2015 and December 31, 2014, APAM had the following authorized and outstanding equity:

	Authorized	Outstanding September 30, 2015	December 31, 2014	Voting Rights ⁽¹⁾	Economic Rights
Common shares					
Class A, par value \$0.01 per share	500,000,000	39,411,178	34,238,131	1 vote per share	Proportionate
Class B, par value \$0.01 per share	200,000,000	18,327,222	21,463,033	5 votes per share	None
Class C, par value \$0.01 per share	400,000,000	15,670,672	17,226,379	1 vote per share	None

⁽¹⁾ The Company's employees to whom Artisan has granted equity have entered into a stockholders agreement with respect to all shares of APAM common stock they have acquired from the Company and any shares they may acquire from the Company in the future, pursuant to which they granted an irrevocable voting proxy to a Stockholders Committee. As of September 30, 2015, Artisan's employees held 2,782,128 restricted shares of Class A common stock and all 18,327,222 outstanding shares of Class B common stock, all of which are subject to the agreement. APAM is dependent on cash generated by Holdings to fund any dividends. Generally, Holdings will make distributions to all of its partners, including APAM, based on the proportionate ownership each holds in Holdings. APAM will fund dividends to its stockholders from its proportionate share of those distributions after provision for its taxes and other obligations. APAM declared and paid the following dividends per share during the three and nine months ended September 30, 2015 and 2014:

Type of Dividend	Class of Stock	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
		2015	2014	2015	2014
Quarterly	Common Class A	\$0.60	\$0.55	\$1.80	\$1.65
Special Annual	Common Class A	\$—	\$—	\$0.95	\$1.63
Quarterly	Convertible Preferred	\$—	\$—	\$—	\$3.81

APAM issued (canceled) the following shares during the nine months ended September 30, 2015:

	Total Stock	Class A Common Stock ⁽¹⁾	Class B Common Stock	Class C Common Stock
Balance at December 31, 2014	72,927,543	34,238,131	21,463,033	17,226,379
2015 Follow-On Offering	—	3,831,550	(2,415,253)	(1,416,297)
Holdings Common Unit Exchanges	—	805,238	(355,305)	(449,933)
Restricted Share Award Grants	562,950	562,950	—	—
Restricted Share Award Net Share Settlement	(14,276)	(14,276)	—	—
Employee/Partner Terminations	(67,145)	(12,415)	(365,253)	310,523
Balance at September 30, 2015	73,409,072	39,411,178	18,327,222	15,670,672

⁽¹⁾ There were 122,990 and 20,612 restricted stock units outstanding at September 30, 2015 and December 31, 2014, respectively, which are not reflected in the table.

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

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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.

Artisan Partners Holdings - Partners' Equity

Holdings makes distributions of its net income to the holders of its partnership units for income taxes as required under the terms of the partnership agreement and also makes additional distributions under the terms of the partnership agreement. The distributions are recorded in the financial statements on the declaration date, or on the payment date in lieu of a declaration date. Holdings' partnership distributions for the three and nine months ended September 30, 2015 and 2014, respectively, were as follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2015	2014	2015	2014
Holdings Partnership Distributions ⁽¹⁾	\$81,140	\$81,632	\$269,704	\$329,704
Holdings Partnership Distributions to APAM	\$42,623	\$35,263	\$134,530	\$116,149

⁽¹⁾ Including distributions to APAM

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

Note 9. Compensation and Benefits

Total compensation and benefits consists of the following:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2015	2014	2015	2014
Salaries, incentive compensation and benefits ⁽¹⁾	\$81,392	\$83,834	\$255,969	\$246,493
Restricted share-based award compensation expense	9,767	6,909	27,325	15,400
Total salaries, incentive compensation and benefits	91,159	90,743	283,294	261,893
Pre-offering related compensation - share-based awards	10,532	12,431	31,596	52,234
Total compensation and benefits	\$101,691	\$103,174	\$314,890	\$314,127

⁽¹⁾ Excluding restricted share-based award compensation expense

Incentive compensation

Cash incentive compensation paid to members of Artisan's portfolio management teams and members of its distribution teams is generally based on formulas that are tied directly to revenues. These payments are made in the quarter following the quarter in which the incentive was earned with the exception of fourth quarter payments which are paid in the fourth quarter of the year. Cash incentive compensation paid to most other employees is discretionary and subjectively determined based on individual performance and Artisan's overall results during the applicable year and has historically been paid in the fourth quarter of the year. The cash incentive compensation earned by the named executive officers for the year ended December 31, 2014, was paid in the three months ended March 31, 2015.

Restricted share-based awards

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

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Unvested awards are subject to forfeiture upon termination of employment. Grantees receiving the awards are entitled to dividends on unvested and vested shares and units. As of September 30, 2015, 10,336,935 shares of Class A common stock were reserved and available for issuance under the Plan.

During the nine months ended September 30, 2015, Artisan issued 562,950 restricted stock awards and 80,000 restricted stock units of Class A common stock to employees of the Company. Total compensation expense associated with the 2015 grants is expected to be approximately \$30.5 million. Compensation expense related to the restricted share-based awards is recognized based on the estimated grant date fair value, for only those awards expected to vest, on a straight-line basis over the requisite service period of the award.

The Company estimated the number of awards expected to vest based, in part, on historical forfeiture rates and also based on management's expectations of employee turnover. Forfeitures are estimated at the time of grant and revised in subsequent periods, if necessary, based on actual forfeiture activity.

The following table summarizes the restricted share-based award activity for the nine months ended September 30, 2015:

	Weighted-Average Grant Date Fair Value	Number of Awards
Unvested at January 1, 2015	\$ 52.59	2,700,634
Granted	\$ 48.17	642,950
Forfeited	\$ 52.71	(12,415)
Vested	\$ 52.69	(469,041)
Unvested at September 30, 2015	\$ 51.58	2,862,128

Compensation expense recognized related to awards was \$9.7 million and \$6.9 million for the three months ended September 30, 2015 and 2014, respectively, and \$27.3 million and \$15.4 million for the nine months ended September 30, 2015 and 2014, respectively. The unrecognized compensation expense for the unvested awards as of September 30, 2015 was \$129.6 million with a weighted average recognition period of 3.7 years remaining.

During the nine months ended September 30, 2015, the Company withheld a total of 14,276 restricted shares as a result of net share settlements to satisfy employee tax withholding obligations. The Company paid \$0.7 million in employee tax withholding obligations related to employee share transactions. These net share settlements had the effect of shares repurchased and retired by the Company, as they reduced the number of shares outstanding.

Pre-offering related compensation - share-based awards

Historical Class B share-based awards

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

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

Historical redemption of Class B awards

Holdings historically redeemed the Class B awards of partners whose employment was terminated. The redemption value of the awards was determined in accordance with the terms of the grant agreement pursuant to which the award was granted. The remaining redemption payments for Class B awards of partners whose services to Holdings terminated prior to the IPO were \$9.3 million and \$14.3 million as of September 30, 2015 and December 31, 2014, respectively. Payments of \$0.8 million and \$5.0 million were made for the three and nine months ended September 30, 2015 and 2014, respectively.

Modification of Class B share-based awards

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

straight-line basis over the remaining vesting period.

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The following table summarizes the activity related to unvested Class B awards for the nine months ended September 30, 2015:

	Weighted-Average Grant Date Fair Value	Number of Class B Awards
Unvested Class B awards at January 1, 2015	\$30.00	4,045,016
Granted	—	—
Forfeited	\$30.00	(54,730)
Vested	\$30.00	(1,641,952)
Unvested at September 30, 2015	\$30.00	2,348,334

Compensation expense recognized related to the unvested Class B awards was \$10.5 million and \$12.4 million for the three months ended September 30, 2015 and 2014, respectively, and \$31.6 million and \$52.2 million for the nine months ended September 30, 2015 and 2014, respectively. The unrecognized compensation expense for the unvested Class B awards as of September 30, 2015, was \$54.0 million with a weighted average recognition period of 1.6 years remaining.

Note 10. Income Taxes and Related Payments

APAM is subject to U.S. federal and state income taxation on APAM's allocable portion of the income of Holdings. APAM's effective income tax rate was lower than the U.S. Federal statutory rate of 35% primarily due to a rate benefit attributable to the fact that approximately 50% of Holdings' earnings are not subject to corporate level taxes. This favorable impact is partially offset by the impact of certain permanent items, primarily attributable to certain compensation related expenses, that are not deductible for tax purposes. Prior to the IPO Reorganization, none of Holdings' earnings were subject to U.S. corporate-level taxes.

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2015	2014	2015	2014
Current:				
Federal	\$9,797	\$6,050	\$21,911	\$21,132
State and local	1,355	1,106	2,896	3,016
Foreign	108	32	271	182
Total	11,260	7,188	25,078	24,330
Deferred:				
Federal	350	12,025	14,979	14,971
State and local	20	(3,878)	(6,848)	(4,108)
Total	370	8,147	8,131	10,863
Income tax expense	\$11,630	\$15,335	\$33,209	\$35,193

In connection with the IPO, APAM entered into two tax receivable agreements ("TRAs"). Under the first TRA, APAM generally is required to pay to a private equity fund controlled by Hellman & Friedman LLC 85% of the applicable cash savings, if any, in U.S. federal, state and local income tax 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 private equity fund into APAM in March 2013, (ii) net operating losses available as a result of the merger and (iii) tax benefits related to imputed interest.

Under the second TRA, APAM generally is required to pay to current or former limited partners of Holdings 85% of the applicable cash savings, if any, in U.S. federal, state and local income tax that APAM actually realizes (or is deemed to realize in certain circumstances) as a result of (i) certain tax attributes of their partnership units sold to APAM or exchanged (for shares of Class A common stock or convertible preferred stock) and that are created as a result of the 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.

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

Payments under the TRAs, if any, will be made pro rata among all TRA counterparties entitled to payments on an annual basis to the extent APAM has sufficient taxable income to utilize the increased depreciation and amortization charges.

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

Amounts payable under tax receivable agreements is an estimate which is impacted by factors, including but not limited to, expected tax rates, projected taxable income, and projected ownership levels. During the nine months ended September 30, 2015, a change in estimate of future tax benefits resulted in an increase to deferred tax assets of \$14.7 million and an increase to amounts payable under tax receivable agreements of \$12.2 million. During the nine months ended September 30, 2014, a change in estimate of future tax benefits resulted in an increase to deferred tax assets of \$4.9 million and an increase to amounts payable under tax receivable agreements of \$4.2 million. The changes in the estimates of amounts payable under tax receivable agreements are recorded in non-operating income in the Consolidated Statements of Operations.

The 2015 Follow-On Offering and Holdings Common Unit Exchanges resulted in an increase to deferred tax assets and amounts payable under tax receivable agreements of \$126.3 million and \$107.4 million, respectively, for the nine months ended September 30, 2015.

During the three months ended September 30, 2015, payments of \$20.2 million, including interest, were made under the TRAs.

Net deferred tax assets comprise the following:

	As of September 30, 2015	As of December 31, 2014
Deferred tax assets:		
Amortizable basis ⁽¹⁾	\$668,414	\$551,952
Other ⁽²⁾	18,646	10,444
Total deferred tax assets	687,060	562,396
Less: valuation allowance ⁽³⁾	—	—
Net deferred tax assets	\$687,060	\$562,396

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

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

⁽³⁾ Artisan assessed whether the deferred tax assets would be realizable and determined based on its history of taxable income that the benefits would more likely than not be realized. Accordingly, no valuation allowance is required. Accounting standards establish a minimum threshold for recognizing, and a system for measuring, the benefits of income tax return positions in financial statements. There were no uncertain tax positions recorded as of September 30, 2015 and December 31, 2014.

In the normal course of business, Artisan is subject to examination by federal and certain state, local and foreign tax regulators. As of September 30, 2015, U.S. federal income tax returns for the years 2012 through 2014 are open and therefore subject to examination. State and local tax returns are generally subject to audit from 2011 to 2014. Foreign

tax returns are generally subject to audit from 2011 to 2014.

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Note 11. Accumulated Other Comprehensive Income (Loss)

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

	As of September 30, 2015	As of December 31, 2014
Unrealized gain (loss) on investments	\$(75	) \$326
Foreign currency translation	(293	) (120
Accumulated Other Comprehensive Income (Loss)	\$(368	) \$206

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

Note 12. Earnings (Loss) Per Share

Basic earnings per share is computed by dividing income available to Class A common stockholders by the weighted average number of Class A common shares outstanding during the period. Unvested restricted share-based awards are excluded from the number of Class A common shares outstanding for the basic earnings per share calculation because the shares have not yet been earned by the employees. Income available to Class A common stockholders is computed by reducing net income attributable to APAM by dividends declared or paid to convertible preferred stockholders during the period and earnings (distributed and undistributed) allocated to participating securities, according to their respective rights to participate in those earnings. Class B and Class C common shares do not share in profits of APAM and therefore are not reflected in the calculations.

The consideration Artisan paid to purchase shares of its convertible preferred stock in March 2014 exceeded the carrying amount of the shares of convertible preferred stock on Artisan's consolidated balance sheet; the excess was subtracted from net income as a deemed dividend to arrive at income available to common stockholders in the earnings per share calculation. The purchase of subsidiary preferred equity in March 2014 resulted in a similar deemed dividend, which also reduced net income available to common stockholders.

The computation of basic and diluted earnings per share under the two-class method for the three and nine months ended September 30, 2015 and 2014 were as follows:

	For the Three Months Ended		For the Nine Months	
	September 30, 2015	2014	Ended September 30, 2015	2014
Basic and Diluted Earnings Per Share				
Numerator:				
Net income attributable to APAM	\$18,474	\$20,439	\$61,724	\$48,335
Less: Convertible preferred stock deemed dividends	—	—	—	22,694
Less: Subsidiary preferred equity deemed dividends	—	—	—	26,469
Less: Allocation to participating securities	2,574	3,246	13,480	25,933
Net income (loss) available to common stockholders	\$15,900	\$17,193	\$48,244	\$(26,761
Denominator:				
Weighted average shares outstanding	36,430,820	30,370,892	35,032,841	26,177,724
Earnings (loss) per share	\$0.44	\$0.57	\$1.38	\$(1.02

Diluted earnings per share is computed by increasing the denominator by the amount of additional Class A common shares that would have been outstanding if all potential Class A common shares had been issued. The numerator is also increased for the net income allocated to the potential Class A common shares. For periods with a net loss available to common stockholders, all potential common shares are considered anti-dilutive.

The Holdings limited partnership units are anti-dilutive primarily due to the impact of public company expenses and unrecognized share-based compensation expense. Unvested restricted awards are anti-dilutive, primarily because the unvested shares are considered participating securities.

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

	For the Three Months Ended		For the Nine Months	
	September 30,		Ended September 30,	
Anti-Dilutive Weighted Average Shares Outstanding	2015	2014	2015	2014
Holdings limited partnership units	34,078,421	39,767,645	35,288,887	43,349,132
Convertible preferred stock	—	—	—	474,938
Unvested restricted share-based awards	3,027,787	2,582,934	3,116,835	1,939,126
Total	37,106,208	42,350,579	38,405,722	45,763,196

Note 13. Indemnifications

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

Note 14. Related Party Transactions

Artisan engages in transactions with its affiliates in the ordinary course of business.

Affiliate transactions—Artisan Funds

Artisan has an agreement to serve as the investment manager of Artisan Funds, with which certain of Artisan employees are affiliated. Under the terms of the agreement, which generally is reviewed and continued by the board of directors of Artisan Funds annually, a fee is paid to Artisan based on an annual percentage of the average daily net assets of each Artisan Fund ranging from 0.63% to 1.25%. Artisan generally collects revenues related to these services on the last business day of each month and records them in Management Fees in the Consolidated Statement of Operations. Artisan has contractually agreed to waive its management fees or reimburse for expenses incurred to the extent necessary to limit annualized ordinary operating expenses incurred by certain of the Artisan Funds to not more than a fixed percentage (ranging from 1.25% to 1.50%) of the particular Fund’s average daily net assets. In addition, Artisan may voluntarily waive fees or reimburse any of the Artisan Funds for other expenses. The officers and a director of Artisan Funds who are affiliated with Artisan receive no compensation from the funds.

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

	For the Three Months		For the Nine Months	
	Ended September 30,		Ended September 30,	
	2015	2014	2015	2014
Investment management fees:				
Artisan Funds	\$ 130,842	\$ 144,873	\$ 404,013	\$ 423,620
Fee waiver / expense reimbursement:				
Artisan Funds	\$ 317	\$ 17	\$ 368	\$ 95

Affiliate transactions—Artisan Global Funds

Artisan has agreements to serve as the investment manager and promoter of Artisan Global Funds, with which certain Artisan employees are affiliated. Under the terms of these agreements, a fee is paid based on an annual percentage of the average daily net assets of each fund ranging from 0.75% to 1.80%. Artisan reimburses each sub-fund of Artisan Global Funds to the extent that sub-fund’s expenses, not including Artisan’s fee, exceed certain levels, which range from 0.10% to 0.20%. In addition, Artisan may voluntarily waive fees or reimburse any of the Artisan Global Funds for other expenses. The directors of Artisan Global Funds who are affiliated with Artisan receive no compensation from the funds. Accounts receivable included \$1.2 million and \$1.3 million due from Artisan Global Funds as of

September 30, 2015 and December 31, 2014, respectively.

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2015	2014	2015	2014
Investment management fees:				
Artisan Global Funds	\$3,807	\$3,685	\$11,376	\$10,552
Fee waiver / expense reimbursement:				
Artisan Global Funds	\$102	\$207	\$346	\$377

Affiliate transactions—Launch Equity

Prior to the dissolution described in Note 7, Artisan had an agreement to serve as the investment manager of Launch Equity. Under the terms of Artisan's agreement with Launch Equity, Artisan earned a quarterly fee based on the value of the closing capital account of each limited partner for the quarter, at the rate of 1.00% (annualized). At Artisan's discretion, the fee was waived and certain expenses reimbursed to the extent they exceeded a certain level. Artisan waived 100% of the quarterly fee and reimbursed Launch Equity for all operating expenses, and Artisan also waived other expenses as well. Expense reimbursements totaled \$40 thousand and \$133 thousand for the three and nine months ended September 30, 2014.

Note 15. Subsequent Events

Distributions and dividends

On October 21, 2015, the board of directors of APAM declared a distribution by Artisan Partners Holdings of \$40.3 million to holders of Artisan Partners Holdings partnership units, including APAM. On the same date, the board declared a quarterly dividend of \$0.60 per share of APAM's Class A common stock. The APAM dividend is payable on November 30, 2015, to shareholders of record as of November 16, 2015.

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

Overview

We are an investment management firm focused on providing high-value added, active investment strategies to sophisticated clients globally. Our operations are conducted through Artisan Partners Holdings and its subsidiaries. We derive essentially all of our revenues from investment management fees. Nearly all our fees are based on a specified percentage of clients' average assets under our management. We operate our business in a single segment. We have seven autonomous investment teams that manage fifteen distinct investment strategies. Strategies are offered through multiple investment vehicles to accommodate a broad range of client mandates. Business and financial highlights for the nine months ended September 30, 2015 included:

As of September 30, 2015, over 85% of our assets under management were in strategies out-performing their broad-based benchmarks over the trailing 3-, 5-, and 10-year periods and since each strategy's inception.

As of September 30, 2015, eight of our 12 investment strategies that have a five-year track record have added value relative to their broad-based performance benchmarks over the trailing five years. Six of our eight strategies with a 10-year track record have added value over the trailing 10-year period.

The launch, in late June, of our newest investment strategy, the Artisan Developing World strategy, which is managed by our Developing World team.

Revenues of \$613.5 million for the nine months ended September 30, 2015, a 1% decrease from revenues of \$622.7 million for the nine months ended September 30, 2014.

Organizational Structure

Organizational Structure

On March 12, 2013, Artisan Partners Asset Management Inc. ("APAM") and the intermediary holding company through which APAM conducts its operations, Artisan Partners Holdings LP ("Holdings"), completed a series of transactions ("the IPO Reorganization") to reorganize their capital structures in connection with the initial public offering ("IPO") of APAM's Class A common stock. The IPO Reorganization and IPO were completed on March 12, 2013. The IPO Reorganization was designed to create a capital structure that preserves our ability to conduct our business through Holdings, while permitting us to raise additional capital and provide access to liquidity through a public company. The IPO Reorganization is described in greater detail in our Annual Report on Form 10-K for the year ended December 31, 2014, filed with the SEC on February 25, 2015.

Our employees and other limited partners of Holdings held approximately 46% of the equity interests in Holdings as of September 30, 2015. As a result, our post-IPO results reflect that significant noncontrolling interest. As of September 30, 2015, our net income represented approximately 54% of Holdings' net income.

2015 Offering and Unit Exchanges

On March 9, 2015, we completed an offering of 3,831,550 shares of Class A common stock and utilized all of the proceeds to purchase an aggregate of 3,831,550 common units of Holdings from certain of the limited partners of Holdings. In connection with the offering, APAM received 3,831,550 GP units of Holdings.

During the nine months ended September 30, 2015, certain limited partners of Holdings exchanged 805,238 common units (along with a corresponding number of shares of Class B or Class C common stock of APAM) for 805,238 shares of Class A common stock. In connection with the exchanges, APAM received 805,238 GP units of Holdings. The aforementioned transactions increased APAM's equity ownership interest in Holdings from 47% at December 31, 2014 to 54% at September 30, 2015.

Tax Impact of IPO Reorganization

In connection with the IPO, APAM entered into two tax receivable agreements ("TRAs"). Under the first TRA, APAM generally is required to pay to a private equity fund controlled by Hellman & Friedman LLC 85% of the applicable cash savings, if any, in U.S. federal, state and local income tax 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 private equity fund into APAM in March 2013, (ii) net operating losses available as a result of the merger and (iii) tax benefits related to imputed interest.

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Under the second TRA, APAM generally is required to pay to current or former limited partners of Holdings 85% of the amount of cash savings, if any, in U.S. federal, state and local income tax that APAM actually realizes (or is deemed to realize in certain circumstances) as a result of (i) certain tax attributes of their partnership units sold to APAM or exchanged (for shares of Class A common stock or convertible preferred stock) and that are created as a result of the 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.

As of September 30, 2015, deferred tax assets of \$687.1 million and amounts payable under tax receivable agreements of \$588.7 million have been recorded in the Condensed Consolidated Statements of Financial Condition. APAM's purchase of Holdings common units with the 2015 Follow-On Offering proceeds resulted in an increase to deferred tax assets of approximately \$105.1 million and an increase in amounts payable under tax receivable agreements of approximately \$89.4 million. The Holdings Unit Exchanges during the nine months ended September 30, 2015, resulted in an increase to deferred tax assets of \$21.2 million and an increase to amounts payable under tax receivable agreements of \$18.0 million. The deferred tax assets and TRA payable also increased by \$14.7 million and \$12.2 million, respectively, for the nine months ended September 30, 2015, due to changes in estimated tax rates and other assumptions during the period.

Financial Overview

Economic Environment

Global equity market conditions can materially affect our financial performance. The following table presents the total returns of relevant market indices for the three and nine months ended September 30, 2015 and 2014:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,		
	2015	2014	2015	2014	
S&P 500 Index total returns	(6.4)	)% 1.1	% (5.3)	)% 8.3	%
MSCI All Country World Index total returns	(9.4)	)% (2.3)	)% (7.0)	)% 3.7	%
MSCI EAFE Index total returns	(10.2)	)% (5.9)	)% (5.3)	)% (1.4))%
Russell Midcap [®] Index total returns	(8.0)	)% (1.7)	)% (5.8)	)% 6.9	%

Key Performance Indicators

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,		
	2015	2014	2015	2014	
	(unaudited; dollars in millions)				
Assets under management at period end	\$96,968	\$106,246	\$96,968	\$106,246	
Average assets under management ⁽¹⁾	\$104,723	\$110,209	\$108,166	\$108,191	
Net client cash flows	\$(1,302)	) \$(645)	) \$(3,833)	) \$1,326
Total revenues	\$198.4	\$212.4	\$613.5	\$622.7	
Weighted average fee ⁽²⁾	75	bps 76	bps 76	bps 77	bps
Adjusted operating margin ⁽³⁾	40.9	% 44.0	% 40.5	% 45.2	%

⁽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.

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The weighted average fee represents annualized investment management fees as a percentage of average assets under management for the applicable period. The decline in the weighted average fee for the nine months ended September 30, 2015, compared to the nine months ended September 30, 2014, is discussed below. 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 products and the effective fee rates on our products also impact our operating results, and in some periods the impact could be material.

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 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;
- competitive conditions in the investment management and broader financial services sectors; and
- investor sentiment and confidence.

The table below sets forth changes in our total AUM:

	For the Three Months Ended		Period-to-Period		
	September 30, 2015	2014	\$		%
	(unaudited; in millions)				
Beginning assets under management	\$109,174	\$112,041	\$(2,867)	) (2.6)%
Gross client cash inflows	4,179	4,677	(498)	) (10.6)%
Gross client cash outflows	(5,481)	(5,322)	(159)	) (3.0)%
Net client cash flows	(1,302)	(645)	(657)	) (101.9)%
Market appreciation (depreciation) ⁽¹⁾	(10,904)	(5,113)	(5,791)	) (113.3)%
Net transfers ⁽²⁾	—	(37)	37	100.0	%
Ending assets under management	\$96,968	\$106,246	\$(9,278)	) (8.7)%
Average assets under management	\$104,723	\$110,209	\$(5,486)	) (5.0)%

	For the Nine Months Ended		Period-to-Period		
	September 30, 2015	2014	\$		%
	(unaudited; in millions)				
Beginning assets under management	\$107,915	\$105,477	\$2,438	2.3	%
Gross client cash inflows	13,700	17,411	(3,711)	) (21.3)%
Gross client cash outflows	(17,533)	(16,085)	(1,448)	) (9.0)%
Net client cash flows	(3,833)	1,326	(5,159)	) (389.1)%
Market appreciation (depreciation) ⁽¹⁾	(7,114)	(520)	(6,594)	) (1,268.1)%
Net transfers ⁽²⁾	—	(37)	37	—	%
Ending assets under management	\$96,968	\$106,246	\$(9,278)	) (8.7)%
Average assets under management	\$108,166	\$108,191	\$(25)) —	%

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

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

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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. During the three and nine months ended September 30, 2015, the Global Opportunities strategy had net inflows of \$395 million and \$1.4 billion, respectively. The Global Equity strategy had net inflows of \$40 million and \$64 million during those respective periods. While our past inflow experience does not guarantee future activity, if these strategies continue to perform well relative to their benchmarks and global strategies remain in demand, we expect that they will continue to gather assets.

Additionally, our High Income strategy, which we launched in March 2014, has performed well since its inception and generated net inflows of \$206 million during the third quarter, despite having a short-term track record. We also saw strong interest in our Developing World strategy during the third quarter, which launched at the end of June 2015. Across the firm, we experienced total net outflows of \$1.3 billion and \$3.8 billion during the three and nine months ended September 30, 2015, respectively. The strategies managed by our U.S. Value team experienced total net outflows of \$1.6 billion and \$4.9 billion during those respective periods. If the U.S. Value team’s strategies continue to underperform their benchmarks and client trends continue, we expect the team’s strategies will continue to experience net outflows.

Our Global Value team’s strategies, both of which were closed to most new investors throughout the nine months ended September 30, 2015, experienced \$324 million and \$1.0 billion of net outflows during the three and nine months ended September 30, 2015, respectively. We re-opened the Global Value strategy across pooled vehicles on October 1, 2015. The strategy remains closed to most new separate account clients. We cannot estimate the impact of the re-opening on net flows with any certainty because of the many factors involved.

During the three and nine months ended September 30, 2015, our Non-U.S. Growth strategy, managed by our Global Equity team, had \$170 million and \$2.1 billion in net inflows, respectively. In September 2015, we announced that we will close the Non-U.S. Growth strategy to most new retail and intermediary investors on February 1, 2016, and to most new institutional investors and employee benefit plans on October 1, 2016. While the first change does not take effect until February 1, 2016, we expect that the announcement will have some impact on the strategy’s net flows prior to that date, though we cannot estimate the impact with any certainty because of the many factors involved.

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.

As of the date of this filing, our Non-U.S. Small-Cap Growth, Non-U.S. Value, U.S. Mid-Cap Growth, U.S. Small-Cap Value, U.S. Mid-Cap Value and U.S. Small-Cap Growth strategies are closed to most new investors and client relationships.

When we close a strategy, we typically continue to allow additional investments in the strategy by existing clients and certain related entities, which means that during a given period we could have net client cash inflows even in a closed strategy. However, when a strategy is closed or its growth is restricted we expect there to be periods of net client cash

outflows.

In November 2015 we expect the Artisan Funds will make their annual income and capital gains distributions. In November 2014 those distributions resulted in about \$650 million of net client cash outflows from investors who chose not to reinvest their dividends. Based on our current estimates, we expect this year's distributions to have a similar aggregate result.

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The table below sets forth the total AUM for each of our investment teams and strategies as of September 30, 2015, the inception date for each investment composite, and the average annual total returns for each strategy and its respective broad-based benchmark (and style benchmark, if applicable) over a multi-horizon time period as of September 30, 2015. Returns for periods of less than one year are not annualized.

Investment Team and Strategy	Inception Date	Strategy AUM (in \$MM)	Average Annual Total Returns (%)				Inception	Average Annual Value-Added ¹ Since Inception (bps)
			1 YR	3 YR	5 YR	10 YR		
Global Equity Team								
Non-U.S. Growth Strategy	1/1/1996	\$28,178	(8.70)%	6.83%	7.92%	6.17%	10.32%	609
MSCI EAFE Index			(8.66)%	5.63%	3.98%	2.97%	4.24%	
Non-U.S. Small-Cap Growth Strategy	1/1/2002	\$1,254	3.43%	10.35%	9.14%	9.23%	14.20%	447
MSCI EAFE Small Cap Index			0.30%	10.17%	7.30%	4.65%	9.73%	
Global Equity Strategy	4/1/2010	\$718	1.59%	11.78%	12.84%	N/A	12.10%	582
MSCI All Country World Index			(6.66)%	6.95%	6.82%	N/A	6.27%	
Global Small-Cap Growth Strategy	7/1/2013	\$130	(1.23)%	N/A	N/A	N/A	4.29%	(187)
MSCI All Country World Small Cap Index			(3.28)%	N/A	N/A	N/A	6.16%	
U.S. Value Team								
U.S. Mid-Cap Value Strategy	4/1/1999	\$9,211	(7.37)%	10.23%	11.26%	8.31%	13.11%	432
Russell Midcap [®] Index			(0.25)%	13.91%	13.40%	7.86%	8.79%	
Russell Midcap [®] Value Index			(2.07)%	13.69%	13.15%	7.41%	9.41%	
U.S. Small-Cap Value Strategy	6/1/1997	\$1,002	(10.46)%	3.10%	4.78%	5.20%	10.64%	329
Russell 2000 [®] Index			1.25%	11.02%	11.73%	6.54%	7.35%	
Russell 2000 [®] Value Index			(1.60)%	9.18%	10.16%	5.34%	8.29%	
Value Equity Strategy	7/1/2005	\$1,586	(11.14)%	6.26%	9.59%	6.14%	6.29%	(88)
Russell 1000 [®] Index			(0.61)%	12.66%	13.41%	6.95%	7.18%	
Russell 1000 [®] Value Index			(4.42)%	11.59%	12.28%	5.71%	5.95%	
Growth Team								
U.S. Mid-Cap Growth Strategy	4/1/1997	\$15,019	4.45%	14.28%	14.97%	11.11%	15.49%	560
Russell Midcap [®] Index			(0.25)%	13.91%	13.40%	7.86%	9.89%	
Russell Midcap [®] Growth Index			1.45%	13.98%	13.58%	8.09%	8.48%	
U.S. Small-Cap Growth Strategy	4/1/1995	\$2,259	8.02%	12.33%	16.10%	7.81%	9.88%	117
Russell 2000 [®] Index			1.25%	11.02%	11.73%	6.54%	8.71%	
Russell 2000 [®] Growth Index			4.04%	12.85%	13.26%	7.66%	7.05%	
Global Opportunities Strategy	2/1/2007	\$6,459	0.50%	10.91%	13.15%	N/A	8.73%	621
MSCI All Country World Index			(6.66)%	6.95%	6.82%	N/A	2.52%	
Global Value Team								
Non-U.S. Value Strategy	7/1/2002	\$16,016	(3.75)%	11.06%	10.60%	9.21%	12.59%	691
MSCI EAFE Index			(8.66)%	5.63%	3.98%	2.97%	5.68%	
Global Value Strategy	7/1/2007	\$13,573	(3.33)%	11.55%	12.71%	N/A	7.28%	568
MSCI All Country World Index			(6.66)%	6.95%	6.82%	N/A	1.60%	
Emerging Markets Team								
Emerging Markets Strategy	7/1/2006	\$533	(19.47)%	(6.14)%	(6.14)%	N/A	2.15%	(91)
MSCI Emerging Markets Index			(19.28)%	(5.27)%	(3.57)%	N/A	3.06%	

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Credit Team

High Income Strategy ²	4/1/2014	\$912	2.74%	N/A	N/A	N/A	3.42%	543
BofA Merrill Lynch High Yield Master II Index			(3.57)%	N/A	N/A	N/A	(2.00)%	
Developing World Team								
Developing World Strategy	7/1/2015	\$118	N/A	N/A	N/A	N/A	(16.43)%	147
MSCI Emerging Markets Index			N/A	N/A	N/A	N/A	(17.90)%	
Total Assets Under Management		\$96,968						

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

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

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

Three Months Ended	By Investment Team							Total
	Global Equity	U.S. Value	Growth	Global Value	Emerging Markets	Credit	Developing World	
September 30, 2015	(unaudited; in millions)							
Beginning assets under management	\$34,625	\$14,889	\$25,706	\$32,595	\$623	\$726	\$10	\$109,174
Gross client cash inflows	1,663	353	1,260	488	34	262	119	4,179
Gross client cash outflows	(1,469)	(1,989)	(1,147)	(812)	(7)	(56)	(1)	(5,481)
Net client cash flows	194	(1,636)	113	(324)	27	206	118	(1,302)
Market appreciation (depreciation)	(4,539)	(1,454)	(2,082)	(2,682)	(117)	(20)	(10)	(10,904)
Net transfers ⁽¹⁾	—	—	—	—	—	—	—	—
Ending assets under management	\$30,280	\$11,799	\$23,737	\$29,589	\$533	\$912	\$118	\$96,968
Average assets under management	\$33,096	\$13,333	\$25,339	\$31,513	\$573	\$813	\$56	\$104,723
September 30, 2014	(unaudited; in millions)							
Beginning assets under management	\$31,300	\$21,549	\$23,535	\$34,109	\$1,237	\$311	\$—	\$112,041
Gross client cash inflows	1,952	913	978	602	2	230	—	4,677
Gross client cash outflows	(1,356)	(1,798)	(1,079)	(842)	(213)	(34)	—	(5,322)
Net client cash flows	596	(885)	(101)	(240)	(211)	196	—	(645)
Market appreciation (depreciation)	(1,595)	(1,118)	(547)	(1,809)	(42)	(2)	—	(5,113)
Net transfers	—	—	—	(37)	—	—	—	(37)
Ending assets under management	\$30,301	\$19,546	\$22,887	\$32,023	\$984	\$505	\$—	\$106,246
Average assets under management	\$30,919	\$20,976	\$23,364	\$33,374	\$1,155	\$421	\$—	\$110,209

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

Nine Months Ended	By Investment Team							Total
	Global Equity	U.S. Value	Growth	Global Value	Emerging Markets	Credit	Developing World	
September 30, 2015	(unaudited; in millions)							
Beginning assets under management	\$31,452	\$18,112	\$24,499	\$32,481	\$806	\$565	\$—	\$107,915
Gross client cash inflows	5,833	1,663	3,608	1,937	38	491	130	13,700
Gross client cash outflows	(3,664)	(6,567)	(4,004)	(2,945)	(203)	(149)	(1)	(17,533)
Net client cash flows	2,169	(4,904)	(396)	(1,008)	(165)	342	129	(3,833)
Market appreciation (depreciation)	(3,341)	(1,409)	(366)	(1,884)	(108)	5	(11)	(7,114)
Net transfers ⁽¹⁾	—	—	—	—	—	—	—	—
Ending assets under management	\$30,280	\$11,799	\$23,737	\$29,589	\$533	\$912	\$118	\$96,968
Average assets under management ⁽²⁾	\$33,567	\$15,498	\$25,301	\$32,413	\$660	\$709	\$56	\$108,166

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Beginning assets under management	\$27,317	\$23,024	\$22,433	\$30,957	\$1,746	\$—	\$—	\$105,477
Gross client cash inflows	7,072	2,538	3,984	3,258	19	540	—	17,411
Gross client cash outflows	(3,633)	(5,842)	(3,437)	(2,366)	(768)	(39)	—	(16,085)
Net client cash flows	3,439	(3,304)	547	892	(749)	501	—	1,326
Market appreciation (depreciation)	(455)	(174)	(140)	258	(13)	4	—	(520)
Net transfers	—	—	47	(84)	—	—	—	(37)
Ending assets under management	\$30,301	\$19,546	\$22,887	\$32,023	\$984	\$505	\$—	\$106,246
Average assets under management	\$29,485	\$21,591	\$22,974	\$32,610	\$1,311	\$308	\$—	\$108,191

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

(2) For the Developing World team, average assets under management is for the period between June 29, 2015, when the team's strategy began investment operations, and September 30, 2015.

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

The table below sets forth our AUM by distribution channel:

	As of September 30, 2015 ⁽¹⁾		As of September 30, 2014 ⁽¹⁾		
	\$ in millions (unaudited)	% of total	\$ in millions (unaudited)	% of total	
Institutional	\$61,248	63.2	% \$65,580	61.7	%
Intermediary	30,407	31.3	% 34,748	32.7	%
Retail	5,313	5.5	% 5,918	5.6	%
Ending Assets Under Management	\$96,968	100.0	% \$106,246	100.0	%

⁽¹⁾ The allocation of AUM by distribution channel data involves the use of estimates and the exercise of judgment.

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

Three Months Ended	Artisan Funds & Artisan Global Funds	Separate Accounts	Total	
September 30, 2015	(unaudited; in millions)			
Beginning assets under management	\$60,271	\$48,903	\$109,174	
Gross client cash inflows	3,370	809	4,179	
Gross client cash outflows	(4,038)	(1,443)	(5,481))
Net client cash flows	(668)	(634)	(1,302))
Market appreciation (depreciation)	(6,178)	(4,726)	(10,904))
Net transfers ⁽¹⁾	(54)	54	—)
Ending assets under management	\$53,371	\$43,597	\$96,968	
Average assets under management	\$57,674	\$47,049	\$104,723	
September 30, 2014				
Beginning assets under management	\$64,816	\$47,225	\$112,041	
Gross client cash inflows	3,179	1,498	4,677	
Gross client cash outflows	(3,791)	(1,531)	(5,322))
Net client cash flows	(612)	(33)	(645))
Market appreciation (depreciation)	(3,077)	(2,036)	(5,113))
Net transfers ⁽¹⁾	(160)	123	(37))
Ending assets under management	\$60,967	\$45,279	\$106,246	
Average assets under management	\$63,418	\$46,791	\$110,209	

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

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Nine Months Ended	Artisan Funds & Artisan Global Funds	Separate Accounts	Total
September 30, 2015	(unaudited; in millions)		
Beginning assets under management	\$60,257	\$47,658	\$107,915
Gross client cash inflows	10,367	3,333	13,700
Gross client cash outflows	(12,887	) (4,646	) (17,533
Net client cash flows	(2,520	) (1,313	) (3,833
Market appreciation (depreciation)	(4,108	) (3,006	) (7,114
Net transfers ⁽¹⁾	(258	) 258	—
Ending assets under management	\$53,371	\$43,597	\$96,968
Average assets under management	\$59,890	\$48,276	\$108,166
September 30, 2014			
Beginning assets under management	\$59,881	\$45,596	\$105,477
Gross client cash inflows	12,455	4,956	17,411
Gross client cash outflows	(10,441	) (5,644	) (16,085
Net client cash flows	2,014	(688	) 1,326
Market appreciation (depreciation)	(554	) 34	(520
Net transfers ⁽¹⁾	(374	) 337	(37
Ending assets under management	\$60,967	\$45,279	\$106,246
Average assets under management	\$62,305	\$45,886	\$108,191

⁽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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Results of Operations

Three months ended September 30, 2015, Compared to Three months ended September 30, 2014

	For the Three Months Ended September 30,		For the Period-to-Period		
	2015	2014	\$	%	
Statements of operations data:	(unaudited; in millions, except per share data)				
Revenues	\$198.4	\$212.4	\$(14.0)	(7))%
Operating Expenses					
Total compensation and benefits	101.7	103.1	(1.4)	(1))%
Other operating expenses	26.1	28.3	(2.2)	(8))%
Total operating expenses	127.8	131.4	(3.6)	(3))%
Total operating income	70.6	81.0	(10.4)	(13))%
Non-operating income (loss)					
Interest expense	(3.0)	(2.9)	(0.1)	(3))%
Other non-operating income	(5.8)	0.4	(6.2)	(1,550))%
Total non-operating income (loss)	(8.8)	(2.5)	(6.3)	(252))%
Income before income taxes	61.8	78.5	(16.7)	(21))%
Provision for income taxes	11.6	15.4	(3.8)	(25))%
Net income before noncontrolling interests	50.2	63.1	(12.9)	(20))%
Less: Noncontrolling interests - Artisan Partners Holdings	31.8	43.2	(11.4)	(26))%
Less: Noncontrolling interests - Launch Equity	—	(0.5)	0.5	100	%
Net income attributable to Artisan Partners Asset Management Inc.	\$18.4	\$20.4	\$(2.0)	(10))%

Per Share Data

Net income available to Class A common stock per basic and diluted share	\$0.44	\$0.57
Weighted average shares of Class A common stock outstanding	36,430,820	30,370,892

Revenues

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

The decrease in revenues of \$14.0 million, or 7%, for the three months ended September 30, 2015, compared to the three months ended September 30, 2014, was driven primarily by a \$5.5 billion, or 5%, decrease in our average AUM. Our weighted average investment management fee was 75 basis points for the three months ended September 30, 2015, compared to 76 for the three months ended September 30, 2014. Separate accounts, including U.S.-registered mutual funds, non-U.S. funds and collective investment trusts we sub-advise, in the aggregate paid a weighted average fee of 54 basis points for the three months ended September 30, 2015 and 2014. These assets represented 45% and 43% of our total AUM as of September 30, 2015 and 2014, respectively. Taken together, the assets of Artisan Funds and Artisan Global Funds, to which we provide services in addition to the services we provide to separate account clients, paid a weighted average fee of 93 basis points for the three months ended September 30, 2015 and 2014. These assets represented 55% and 57% of our AUM as of September 30, 2015 and 2014, respectively.

For the three months ended September 30, 2015 and 2014, fees from separate accounts, including U.S.-registered mutual funds, non-U.S. funds and collective investment trusts we sub-advise, represented \$63.7 million of our revenues.

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For the three months ended September 30, 2015 and 2014, fees from Artisan Funds represented \$130.9 million and \$144.9 million of our revenues, respectively, and fees from Artisan Global Funds represented \$3.8 million for both periods.

Operating Expenses

The decrease in total operating expenses of \$3.6 million for the three months ended September 30, 2015, compared to the three months ended September 30, 2014, was primarily a result of lower incentive compensation and third-party distribution expenses and a decrease in pre-offering related equity compensation expense.

Compensation and Benefits

	For the Three Months Ended September 30,		Period-to-Period		
	2015	2014	\$	%	
	(unaudited; in millions)				
Salaries, incentive compensation and benefits ⁽¹⁾	\$81.5	\$83.8	\$(2.3)	(3))%
Restricted share-based award compensation expense	9.7	6.9	2.8	41)%
Total salaries, incentive compensation and benefits	91.2	90.7	0.5	1)%
Amortization expense on pre-offering Class B awards	10.5	12.4	(1.9)	(15))%
Pre-offering related compensation - share-based awards	10.5	12.4	(1.9)	(15))%
Total compensation and benefits	\$101.7	\$103.1	\$(1.4)	(1))%

⁽¹⁾ Excluding restricted share-based award compensation expense

The decrease in salaries, incentive compensation, and benefits was driven primarily by a decline in incentive compensation paid to our investment and marketing professionals. The portion of total cash incentive compensation directly linked to our revenues decreased by \$4.0 million as a result of lower investment management fee revenue. Lower incentive compensation expense was partially offset by an increase in non-variable compensation expenses related to an increase in the number of employees.

Restricted share-based compensation expense was \$9.7 million and \$6.9 million for the three months ended September 30, 2015 and 2014, respectively. The increase primarily resulted from the grant of awards in July 2014 and January 2015.

Amortization expense on pre-offering Class B awards decreased \$1.9 million, as certain awards became fully vested during 2014 and 2015.

Total salaries, incentive compensation and benefits was 46% and 43% of our revenues for the three months ended September 30, 2015, and 2014, respectively.

Other operating expenses

Other operating expenses decreased \$2.2 million for the three months ended September 30, 2015, compared to the three months ended September 30, 2014, primarily due to a \$2.4 million decrease in third-party distribution expenses. Third-party 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 in assets from Investor Shares to Advisor Shares reduced our intermediary fees by \$1.0 million for the three months ended September 30, 2015. Based on the assets that have transferred to date at current market values, we expect to realize annualized savings of approximately \$4.0 million to \$4.5 million.

Other operating expenses also includes a \$0.7 million increase in communication and technology expenses as a result of an increase in information subscriptions and consulting expense related to firm initiatives. We expect to continue to invest in technology to support our investment teams, distribution efforts, and scalable operations.

Non-Operating Income (Loss)

Non-operating income (loss) for the three months ended September 30, 2015 includes \$5.8 million of expense resulting from the change in estimate of the payment obligation under the tax receivable agreements. A similar \$0.3 million gain related to a change in estimate of the payment obligation under the tax receivable agreements was recorded for the three months ended September 30, 2014. The effect of changes in that estimate after the date of an

exchange or sale that triggers a potential future payment under the agreements is included in net income. Similarly, the effect on the estimate of changes in enacted tax rates and in applicable tax laws are included in net income.

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Non-operating income (loss) for the three months ended September 30, 2014 also includes a \$0.5 million net loss of Launch Equity, which represents net realized and unrealized losses of the underlying assets of Launch Equity. Nearly all losses were allocable to, and were offset by, net income (loss) attributable to noncontrolling interests - Launch Equity. In December 2014, we dissolved Launch Equity LP.

Non-operating income (loss) for the three months ended September 30, 2014 also includes \$0.4 million of realized gains on the sale of certain mutual fund seed investments.

Provision for Income Taxes

The provision for income taxes represents APAM's U.S. federal and state income tax on its allocable portion of the income of Holdings. APAM's effective income tax rate for the three months ended September 30, 2015 and 2014, was 18.8% and 19.5%, respectively. Several factors contribute to the effective tax rate, including a rate benefit attributable to the fact that approximately 50% and 60% of Holdings' earnings were not subject to corporate-level taxes for the three months ended September 30, 2015 and 2014, respectively. Income before income taxes includes amounts that are passed through to limited partners of Holdings and not taxable to Holdings 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 our ownership in Holdings increases, the effective tax rate will likewise increase as more income will be subject to corporate-level taxes. Included in the tax provision for the three months ended September 30, 2015 and 2014 is a discrete tax benefit of \$0.6 million and a discrete tax expense of \$0.4 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 three months ended September 30, 2015, compared to the three months ended September 30, 2014, as a result of stock offerings, unit exchanges, and equity award grants. See Note 12, "Earnings (Loss) Per Share" in the Notes to the Unaudited Consolidated Financial Statements for further discussion of earnings per share.

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Nine months ended September 30, 2015, Compared to Nine months ended September 30, 2014

	For the Nine Months Ended September 30,		For the Period-to-Period		
	2015	2014	\$	%	
Statements of operations data:	(unaudited; in millions, except per share data)				
Revenues	\$613.5	\$622.7	\$ (9.2	) (1)%
Operating Expenses					
Total compensation and benefits	314.9	314.1	\$0.8	—	%
Other operating expenses	81.9	79.6	\$2.3	3	%
Total operating expenses	396.8	393.7	\$3.1	1	%
Total operating income	216.7	229.0	\$ (12.3	) (5)%
Non-operating income (loss)					
Interest expense	(8.8	) (8.7	) \$ (0.1	) (1)%
Other non-operating income	(11.8	) (5.9	) \$ (5.9	) (100)%
Total non-operating income (loss)	(20.6	) (14.6	) \$ (6.0	) (41)%
Income before income taxes	196.1	214.4	\$ (18.3	) (9)%
Provision for income taxes	33.2	35.2	\$ (2.0	) (6)%
Net income before noncontrolling interests	162.9	179.2	(16.3	) (9)%
Less: Noncontrolling interests - Artisan Partners Holdings	101.2	132.9	(31.7	) (24)%
Less: Noncontrolling interests - Launch Equity	—	(2.0	) 2.0	100	%
Net income attributable to Artisan Partners Asset Management Inc.	\$61.7	\$48.3	\$13.4	28	%

Per Share Data

Net income (loss) available to Class A common stock per basic and diluted share	\$1.38	\$(1.02)
Weighted average shares of Class A common stock outstanding	35,032,841	26,177,724	

Revenues

The decrease in revenues of \$9.2 million, or 1%, for the nine months ended September 30, 2015, compared to the nine months ended September 30, 2014, was driven primarily by a decline in the proportion of our total AUM managed through Artisan Funds which resulted in our weighted average investment management fee rate decreasing from 77 basis points for the nine months ended September 30, 2014 to 76 basis points for the nine months ended September 30, 2015.

Separate accounts, including U.S.-registered mutual funds, non-U.S. funds and collective investment trusts we sub-advise, in the aggregate paid a weighted average fee of 55 basis points for the nine months ended September 30, 2015 and 2014. Artisan Funds and Artisan Global Funds, to which we provide services in addition to the services we provide to separate account clients, paid in the aggregate a weighted average fee of 93 basis points for the nine months ended September 30, 2015 and 2014.

For the nine months ended September 30, 2015 and 2014, fees from separate accounts, including U.S.-registered mutual funds, non-U.S. funds and collective investment trusts we sub-advise, represented \$198.1 million and \$188.5 million of our revenues, respectively. For the nine months ended September 30, 2015 and 2014, fees from Artisan Funds represented \$404.0 million and \$423.6 million of our revenues, respectively, and fees from Artisan Global Funds represented \$11.4 million and \$10.6 million of our revenues, respectively.

Operating Expenses

The increase in total operating expenses of \$3.1 million for the nine months ended September 30, 2015, compared to the nine months ended September 30, 2014, was primarily due to costs associated with the formation of our Developing World team and increased restricted share-based compensation expense. We incurred \$6.5 million of start-up costs related to the Developing World team in the first quarter of 2015. The increased expenses were partially

offset by a \$20.6 million decrease in pre-offering related compensation expense.

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Compensation and Benefits

	For the Nine Months Ended September 30,		Period-to-Period		
	2015	2014	\$	%	
	(unaudited; in millions)				
Salaries, incentive compensation and benefits ⁽¹⁾	\$256.0	\$246.5	9.5	4	%
Restricted share-based award compensation expense	27.3	15.4	11.9	77	%
Total salaries, incentive compensation and benefits	283.3	261.9	21.4	8	%
Amortization expense on pre-offering Class B awards	31.6	52.2	(20.6	) (39)%
Pre-offering related compensation - share-based awards	31.6	52.2	(20.6	) (39)%
Total compensation and benefits	\$314.9	\$314.1	\$0.8	0	%

⁽¹⁾ Excluding share-based compensation

The increase in salaries, incentive compensation, and benefits was driven primarily by \$6.0 million of the start-up costs discussed above, and a \$6.2 million increase in salaries, incentive compensation expense and benefits due to an increase in the number of employees, including those within 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 \$2.7 million.

Restricted share-based compensation expense was \$27.3 million and \$15.4 million for the nine months ended September 30, 2015 and 2014, respectively. The increase resulted primarily from grants of awards in January 2015 and July 2014. We expect restricted share-based award compensation expense to continue to increase as we make additional equity awards each year. The ultimate size of the expense will depend primarily on the number of awards granted and our stock price.

We grant equity awards to our employees pursuant to the Artisan Partners Asset Management Inc. 2013 Omnibus Incentive Compensation Plan. During the nine months ended September 30, 2015, we granted 642,950 restricted share-based awards to our employees. A portion of these awards will vest pro rata in the first fiscal quarter of each of the next five years. The remaining awards are career awards that will vest only upon a qualifying retirement (as defined in the award agreements). Total compensation expense associated with the 2015 awards is expected to be approximately \$30.5 million, which is being recognized on a straight-line basis over the requisite service period. Amortization expense on pre-offering Class B awards decreased \$20.6 million, as certain awards became fully vested during 2015 and 2014.

Total salaries, incentive compensation and benefits was 46% and 42% of our revenues for the nine months ended September 30, 2015, and 2014, respectively.

Other operating expenses

Other operating expenses increased \$2.3 million, or 3%, for the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014, primarily due to a \$2.3 million increase in communication and technology expenses as a result of an increase in information subscriptions and consulting expense related to firm initiatives.

Occupancy and general and administrative expenses also increased by \$2.3 million partially due to an increase in the number of employees, including those within the Developing World team.

The increases in other operating expenses described above were partially offset by a \$2.3 million reduction in distribution expenses for the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014. The transfer of assets to Advisor Shares discussed above contributed \$1.6 million in savings. The remainder of the reduction was a result of lower AUM sourced through third-party intermediaries. Distribution expense for the nine months ended September 30, 2015 was \$2.4 million greater than it would have been had the allocation of payments to intermediaries between us and Artisan Funds not been changed in July 2014.

Non-Operating Income (Loss)

Non-operating income (loss) for the nine months ended September 30, 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 that triggers a potential future payment under the agreements 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.

Non-operating income (loss) for the nine months ended September 30, 2014 also includes a \$2.0 million net loss of Launch Equity, which represents net realized and unrealized losses of the underlying assets of Launch Equity. Nearly all losses were allocable to, and were offset by, net income (loss) attributable to noncontrolling interests - Launch Equity. In December 2014, we dissolved Launch Equity LP.

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Provision for Income Taxes

The provision for income taxes represents APAM's U.S. federal and state income tax on its allocable portion of the income of Holdings. APAM's effective income tax rate for the nine months ended September 30, 2015 and 2014, was 16.9% and 16.4%, respectively. Several factors contribute to the effective tax rate, including a rate benefit attributable to the fact that approximately 50% and 60% of Holdings' earnings were not subject to corporate-level taxes for the nine months ended September 30, 2015 and 2014, respectively. Income before income taxes includes amounts that are passed through to limited partners of Holdings and not taxable to Holdings 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 our ownership in Holdings increases, the effective tax rate will likewise increase as more income will be subject to corporate-level taxes. Included in the tax provision for the nine months ended September 30, 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 nine months ended September 30, 2015, compared to the nine months ended September 30, 2014, as a result of stock offerings, unit exchanges, and equity award grants. Basic and diluted earnings per share were negatively impacted in the nine months ended September 30, 2014, by our purchase of our preferred securities because the purchase price was greater than the equity carrying value. See Note 12, "Earnings (Loss) Per Share" in the Notes to the Unaudited Consolidated Financial Statements for further discussion of earnings per share.

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Supplemental Non-GAAP Financial Information

Our management uses non-GAAP measures (referred to as “adjusted” measures) of net income and operating income to evaluate the profitability and efficiency of the underlying operations of our business and as a factor when considering net income available for distributions and dividends. These adjusted measures remove the impact of (1) pre-offering related compensation, (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 us. 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 share-based awards of Class A common stock and as if all outstanding limited partnership units of Artisan Partners Holdings and all shares of the Company’s convertible preferred stock had been exchanged for or converted into Class A common stock of the Company 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 the Company, 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% and 36.5% for the 2015 and 2014 periods, respectively.

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 share-based awards of Class A common stock, the exchange of all outstanding limited partnership units of Artisan Partners Holdings and the conversion of all outstanding shares of the Company’s convertible preferred stock for or into Class A common stock of the Company 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 income before income 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 our initial public offering, which closed on March 12, 2013.

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.

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

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,		
	2015	2014	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)	\$18.4	\$20.4	\$61.7	\$48.3	
Add back: Net income attributable to noncontrolling interests - Artisan Partners Holdings	31.8	43.2	101.2	132.9	
Add back: Provision for income taxes	11.6	15.4	33.2	35.2	
Add back: Pre-offering related compensation - share-based awards	10.5	12.4	31.6	52.2	
Add back: Offering related proxy expense	—	—	—	0.1	
Add back: Net (gain) loss on the tax receivable agreements	5.8	(0.3)	12.2	4.2)
Less: Adjusted provision for income taxes	28.9	33.7	88.8	99.5	
Adjusted net income (Non-GAAP)	\$49.2	\$57.4	\$151.1	\$173.4	
Average shares outstanding					
Class A common shares	36.4	30.4	35.0	26.2	
Assumed vesting, conversion or exchange of:					
Unvested Class A restricted shares-based awards	3.0	2.6	3.1	1.9	
Convertible preferred shares outstanding	—	—	—	0.5	
Artisan Partners Holdings units outstanding (noncontrolling interest)	34.1	39.7	35.3	43.3	
Adjusted shares	73.5	72.7	73.4	71.9	
Adjusted net income per adjusted share (Non-GAAP)	\$0.67	\$0.79	\$2.06	\$2.41	
Operating income (GAAP)					
Operating income (GAAP)	\$70.6	\$81.0	\$216.7	\$229.0	
Add back: Pre-offering related compensation - share-based awards	10.5	12.4	31.6	52.2	
Add back: Offering related proxy expense	—	—	—	0.1	
Adjusted operating income (Non-GAAP)	\$81.1	\$93.4	\$248.3	\$281.3	
Adjusted operating margin (Non-GAAP)	40.9	% 44.0	% 40.5	% 45.2	%
Net income attributable to Artisan Partners Asset Management Inc. (GAAP)					
Net income attributable to Artisan Partners Asset Management Inc. (GAAP)	\$18.4	\$20.4	\$61.7	\$48.3	
Add back: Net income attributable to noncontrolling interests - Artisan Partners Holdings	31.8	43.2	101.2	132.9	
Add back: Pre-offering related compensation - share-based awards	10.5	12.4	31.6	52.2	
Add back: Offering related proxy expense	—	—	—	0.1	
Add back: Net (gain) loss on the tax receivable agreements	5.8	(0.3)	12.2	4.2)
Add back: Interest expense	3.0	2.9	8.8	8.7	
Add back: Provision for income taxes	11.6	15.4	33.2	35.2	
Add back: Depreciation and amortization	1.1	0.9	3.2	2.3	

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Adjusted EBITDA (Non-GAAP)	\$82.2	\$94.9	\$251.9	\$283.9
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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 September 30, 2015, and December 31, 2014.

	September 30, 2015 (unaudited; in millions)	December 31, 2014
Cash and cash equivalents	\$217.7	\$182.3
Accounts receivable	\$67.6	\$69.4
Undrawn commitment on revolving credit facility	\$100.0	\$100.0

We manage our cash balances in order to fund our day-to-day operations. Accounts receivable primarily represent investment management fees that have been earned, but not yet received from our clients. We perform a review of our receivables on a monthly basis to assess collectability.

In August 2012, we issued \$200.0 million in unsecured notes and entered into the \$100.0 million five-year revolving credit facility. The notes are comprised of three series, each with a balloon payment at maturity. The fixed interest rate on each series of unsecured notes is subject to a 100 basis point increase in the event Holdings receives a below-investment grade rating and any such increase will continue to apply until an investment grade rating is received. The \$100.0 million revolving credit facility was unused as of and for the nine months ended September 30, 2015.

These borrowings contain various restrictive covenants. Our failure to comply with any of the covenants could result in an event of default under the agreements, giving our lenders the ability to accelerate repayment of our obligations. We were in compliance with all debt covenants as of September 30, 2015.

Distributions and Dividends

Artisan Partners Holdings distributions, including distributions to APAM for the three and nine months ended September 30, 2015 and 2014, respectively, were as follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2015	2014	2015	2014
	(unaudited, in millions)			
Holdings Partnership Distributions ⁽¹⁾	\$81.1	\$81.6	\$269.7	\$329.7
Holdings Partnership Distributions to APAM	\$42.6	\$35.3	\$134.5	\$116.1

⁽¹⁾ Including distributions to APAM

APAM declared and paid the following dividends per share during the three and nine months ended September 30, 2015 and 2014:

Type of Dividend	Class of Stock	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
		2015	2014	2015	2014
Quarterly	Common Class A	\$0.60	\$0.55	\$1.80	\$1.65
Special Annual	Common Class A	\$—	\$—	\$0.95	\$1.63
Quarterly	Convertible Preferred	\$—	\$—	\$—	\$3.81

Subject to board approval each quarter, we expect to pay a quarterly dividend of \$0.60 per share of Class A common stock during 2015. After the end of each 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 currently expect to pay dividends each year, as described above, our dividend policy allows us flexibility to not pay dividends according to that description or at all.

On October 21, 2015, we, acting as the general partner of Artisan Partners Holdings, declared a distribution of \$40.3 million payable by Artisan Partners Holdings to holders of its partnership units, including us. In addition, our board of directors declared a quarterly dividend of \$0.60 per share of Class A common stock, to be paid on November 30, 2015, to shareholders of record as of the close of business on November 16, 2015.

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

Tax Receivable Agreements (“TRAs”)

In connection with the IPO, APAM entered into two TRAs, which resulted in the recognition of a \$588.7 million liability as of September 30, 2015. The \$588.7 million liability represents 85% of the tax benefits we expect to realize as a result of the merger of an entity into us as part of the IPO Reorganization and the redemption or exchange of the common and preferred units of Holdings after the IPO. The estimated liability assumes no material changes in the relevant tax law and that we earn sufficient taxable income to realize all tax benefits subject to the TRAs.

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

The actual payments, and associated tax benefits, will vary depending upon a number of factors, including the timing of exchanges by the holders of Holdings units, the price of our Class A common stock at the time of the redemption or exchange, the extent to which such redemptions or exchanges are taxable, the amount and timing of the taxable income we generate in the future and the tax rate then applicable as well as the portion of our payments under the TRAs constituting imputed interest or depreciable 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 nine months ended September 30, 2015, payments of \$20.2 million, including interest, were made under the TRAs.

Cash Flows

	For the Nine Months Ended September 30,	
	2015	2014
	(unaudited; in millions)	
Cash as of January 1	\$182.3	\$211.8
Net cash provided by operating activities	298.6	326.1
Net cash used in investing activities	(7.6	) (11.4
Net cash used in financing activities	(255.6	) (298.5
Cash as of September 30	\$217.7	\$228.0

Operating activities provided net cash of \$298.6 million and \$326.1 million for the nine months ended September 30, 2015 and 2014, respectively. For the nine months ended September 30, 2015, compared to the nine months ended September 30, 2014, our operating income, excluding share-based and pre-offering related compensation expenses, decreased \$21.0 million. Timing differences in working capital accounts, primarily due to the timing of executive incentive compensation payments, also decreased our operating cash flows by \$9.8 million for the nine months ended September 30, 2015, compared to the nine months ended September 30, 2014.

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 \$7.6 million and \$11.4 million for the nine months ended September 30, 2015 and 2014, respectively. The decrease in net cash used in investing activities was due to a \$4.2 million decrease in acquisitions of property and equipment and leasehold improvements for the nine months ended September 30, 2015, compared to the nine months ended September 30, 2014.

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 \$255.6 million and \$298.5 million for the nine months ended September 30, 2015 and 2014, respectively. This decrease in net cash used by financing activities was primarily the result of a \$78.4 million decrease in distributions to limited partners, partially offset by a \$19.2 million increase in dividends paid and a \$15.4 million increase in payments of amounts owed under the tax receivable during the nine months ended September 30, 2015, compared to the nine months ended September 30, 2014.

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Certain Contractual Obligations

As of September 30, 2015, there have been no material changes to our contractual obligations outside the ordinary course of business from those listed in the “Certain Contractual Obligations” table and related notes to the table in our Annual Report on Form 10-K for the year ended December 31, 2014, filed with the SEC on February 25, 2015, except for increases in the TRA liability. As previously discussed in this report, the TRA liability increased from \$489.2 million at December 31, 2014, to \$588.7 million at September 30, 2015. 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 the TRAs or future exchanges or sales, and associated tax benefits, will vary depending upon a number of factors as described under “Liquidity and Capital Resources.” As a result, the timing of payments by period is currently unknown. We paid approximately \$20.2 million, including interest, related to the TRAs in 2015.

Off-Balance Sheet Arrangements

We did not have any off-balance sheet arrangements as of September 30, 2015.

Critical Accounting Policies and Estimates

There have been no updates to our critical accounting policies from those disclosed in Management’s Discussion and Analysis of Financial Condition and Results of Operations in our Form 10-K for the year ended December 31, 2014.

New or Revised Accounting Standards

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

Item 3. Qualitative and Quantitative Disclosures Regarding Market Risk

There have been no material changes in our Quantitative and Qualitative Disclosures Regarding Market Risk from those previously reported in our Form 10-K for the year ended December 31, 2014.

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Item 4. Controls and Procedures

Disclosure Controls and Procedures

We maintain disclosure controls and procedures, as defined in Rule 13a-15(e) of the Exchange Act, that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our principal executive and principal financial officers, as appropriate, to allow for timely decisions regarding required disclosure. Our management, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) at September 30, 2015. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are effective.

Changes in Internal Control over Financial Reporting

There have been no changes in internal control over financial reporting during the quarter ended September 30, 2015, that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

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Part II — Other Information

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

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

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

Unregistered Sales of Equity Securities

As described in Note 8, “Stockholders’ Equity”, to the Unaudited Consolidated Financial Statements included in Part I of this report, upon termination of employment with Artisan, an employee-partner’s unvested Class B common units are forfeited. Generally, the employee-partner’s vested Class B common units are exchanged for Class E common units; the employee-partner’s shares of APAM Class B common stock are canceled; and APAM issues the former employee-partner a number of shares of APAM Class C common stock equal to the former employee-partner’s number of Class E common units. Class E common units are exchangeable for Class A common stock subject to the same restrictions and limitations on exchange applicable to the other common units of Holdings. During the nine months ended September 30, 2015, 365,253 shares of Class B common stock were canceled, and 310,523 shares of Class C common stock were issued, in connection with the termination of employment of employee-partners.

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

Not applicable

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit No.	Description
31.1	Certification of the Company’s Chief Executive Officer pursuant to Exchange Act Rules 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of the Company’s Chief Financial Officer pursuant to Exchange Act Rules 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of the Company’s Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of the Company’s Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	The following Extensible Business Reporting Language (XBRL) documents are collectively included herewith as Exhibit 101: (i) the Unaudited Condensed Consolidated Statements of Financial Condition as of September 30, 2015 and December 31, 2014; (ii) the Unaudited Consolidated Statements of Operations for the three and nine months ended September 30, 2015 and 2014; (iii) the Unaudited Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2015 and 2014; (iv) the Unaudited Consolidated Statements of Changes in Stockholders’ Equity for the nine months ended September 30, 2015 and 2014; (v) the Unaudited Consolidated Statements of Cash Flows for the nine months ended September 30, 2015 and 2014 (vi) the Notes to Unaudited Consolidated Financial Statements as of and for the three and nine months ended September 30, 2015 and 2014

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SIGNATURES

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

Artisan Partners Asset Management Inc.

Dated: November 2, 2015

By:

/s/ Eric R. Colson

Eric R. Colson

President and Chief Executive Officer and Director
(principal executive officer)

/s/ Charles J. Daley, Jr.

Charles J. Daley, Jr.

Executive Vice President, Chief Financial Officer and Treasurer
(principal financial and accounting officer)