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Artisan Partners Asset Management Inc.

Form 10-Q

May 01, 2019

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

Form 10-Q

(Mark One)

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QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2019

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
(Address of principal executive offices) (Zip Code)

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

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

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

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

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 April 26, 2019 were 56,076,459, 7,974,456 and 13,763,806, 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 direct and indirect 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. Statements regarding future events and our future performance, as well as management's current expectations, beliefs, plans, estimates, or projections relating to the future, are forward-looking statements within the meaning of these laws. In some cases, you can identify these statements by forward-looking words such as "may", "might", "will", "should", "expects", "intends", "plans", "anticipates", "believes", "estimates", "predicts", "potential" or "continue", the negative of these terms and other comparable terminology. Forward-looking statements are only predictions based on current expectations and projections about future events. Forward-looking statements are subject to a number of risks and uncertainties, and there are important factors that could cause actual results, level of activity, performance, actions or achievements to differ materially from the results, level of activity, performance, actions or achievements expressed or implied by the forward-looking statements. These factors include: the loss of key investment professionals or senior management, adverse market or economic conditions, poor performance of our investment strategies, change in the legislative and regulatory environment in which we operate, operational or technical errors or other damage to our reputation and other factors disclosed in the Company's filings with the Securities and Exchange Commission, including those factors listed under the caption entitled "Risk Factors" in Item 1A of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2018, filed with the SEC on February 20, 2019, which is accessible on the SEC's website at www.sec.gov. We undertake no obligation to publicly update any forward-looking statements in order to reflect events or circumstances that may arise after the date of this report, except as required by law.

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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 the performance of our investment strategies
- our expectations with respect to future levels of assets under management, including the capacity of our strategies and client cash inflows and outflows;
- our expectations with respect to industry trends and how those trends may impact our business;
- our financing plans, cash needs and liquidity position;
- our intention to pay dividends and our expectations about the amount of those dividends;
- our expected levels of compensation of our employees, including equity compensation;
- our expectations with respect to future expenses and the level of future expenses;
- our expected tax rate, and our expectations with respect to deferred tax assets; and
- our estimates of future amounts payable pursuant to our tax receivable agreements.

Table of Contents**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)

	March 31,	December 31,
	2019	2018
ASSETS		
Cash and cash equivalents	\$ 152,217	\$ 160,463
Accounts receivable	79,256	67,691
Investment securities	20,671	18,109
Property and equipment, net	32,531	29,138
Deferred tax assets	428,704	429,128
Restricted cash	629	629
Prepaid expenses and other assets	12,898	13,674
Operating lease assets	95,911	—
<i>Assets of consolidated investment products</i>		
Cash and cash equivalents	2,152	14,443
Accounts receivable and other	3,547	5,566
Investment assets, at fair value	77,994	66,173
Total assets	\$ 906,510	\$ 805,014
LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS, AND STOCKHOLDERS' EQUITY		
Accounts payable, accrued expenses, and other	\$ 17,511	\$ 27,221
Accrued incentive compensation	61,323	12,689
Borrowings	199,338	199,296
Operating lease liabilities	107,487	—
Amounts payable under tax receivable agreements	374,744	369,355
<i>Liabilities of consolidated investment products</i>		
Accounts payable, accrued expenses, and other	8,130	4,712
Investment liabilities, at fair value	8,480	16,905
Total liabilities	777,013	630,178
Commitments and contingencies		
Redeemable noncontrolling interests	36,547	34,349
Common stock		
Class A common stock (\$0.01 par value per share, 500,000,000 shares authorized, 55,626,061 and 54,071,188 shares outstanding at March 31, 2019 and December 31, 2018, respectively)	556	541
Class B common stock (\$0.01 par value per share, 200,000,000 shares authorized, 7,974,456 and 8,645,249 shares outstanding at March 31, 2019 and December 31, 2018, respectively)	80	86
Class C common stock (\$0.01 par value per share, 400,000,000 shares authorized, 14,216,435 and 14,226,435 shares outstanding at March 31, 2019 and December 31, 2018, respectively)	142	142
Additional paid-in capital	69,471	97,553
Retained earnings (deficit)	21,191	38,617
Accumulated other comprehensive income (loss)	(1,658)	(1,895)
Total Artisan Partners Asset Management Inc. stockholders' equity	89,782	135,044
Noncontrolling interest - Artisan Partners Holdings	3,168	5,443
Total stockholders' equity	92,950	140,487
Total liabilities, redeemable noncontrolling interests, and stockholders' equity	\$ 906,510	\$ 805,014

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 March 31,	
	2019	2018
Revenues		
Management fees	\$ 186,864	\$ 211,966
Performance fees	98	42
Total revenues	\$ 186,962	\$ 212,008
Operating Expenses		
Compensation and benefits	99,282	105,224
Distribution, servicing and marketing	5,403	7,009
Occupancy	7,567	3,925
Communication and technology	9,428	8,660
General and administrative	7,550	7,204
Total operating expenses	129,230	132,022
Total operating income	57,732	79,986
Non-operating income (expense)		
Interest expense	(2,775)	(2,776)
Net investment gain (loss) of consolidated investment products	2,346	6,285
Net investment income	1,957	454
Total non-operating income (expense)	1,528	3,963
Income before income taxes	59,260	83,949
Provision for income taxes	9,442	12,285
Net income before noncontrolling interests	49,818	71,664
Less: Net income attributable to noncontrolling interests - Artisan Partners Holdings	17,309	26,052
Less: Net income attributable to noncontrolling interests - consolidated investment products	970	4,338
Net income attributable to Artisan Partners Asset Management Inc.	\$ 31,539	\$ 41,274
Basic and diluted earnings per share	\$ 0.47	\$ 0.75
Basic and diluted weighted average number of common shares outstanding	50,145,684	47,360,438
Dividends declared per Class A common share	\$ 1.59	\$ 1.39

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 March 31,	
	2019	2018
Net income before noncontrolling interests	\$49,818	\$71,664
Other comprehensive income (loss), net of tax		
Foreign currency translation gain (loss)	378	632
Total other comprehensive income (loss)	378	632
Comprehensive income	50,196	72,296
Comprehensive income attributable to noncontrolling interests - Artisan Partners Holdings	17,449	26,291
Comprehensive income attributable to noncontrolling interests - consolidated investment products	970	4,338
Comprehensive income attributable to Artisan Partners Asset Management Inc.	\$31,777	\$41,667

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 stockholders' equity	Redeemable non-controlling interest
Balance at January 1, 2019	\$ 541	\$ 86	\$ 142	\$ 97,553	\$ 38,617	\$ (1,895)	\$ 5,443	\$ 140,487	\$ 34,349
Net income	—	—	—	—	31,539	—	17,309	48,848	970
Other comprehensive income - foreign currency translation	—	—	—	—	—	262	116	378	—
Cumulative impact of changes in ownership of Artisan Partners Holdings LP, net of tax	—	—	—	(91)	—	(25)	116	—	—
Amortization of equity-based compensation	—	—	—	8,990	—	—	3,359	12,349	—
Deferred tax assets, net of amounts payable under tax receivable agreements	—	—	—	1,679	—	—	—	1,679	—
Issuance of Class A common stock, net of issuance costs	—	—	—	(10)	—	—	—	(10)	—
Forfeitures and employee/partner terminations	—	—	—	—	—	—	—	—	—
Issuance of restricted stock awards	10	—	—	(10)	—	—	—	—	—
Employee net share settlement	(1)	—	—	(1,287)	—	—	(536)	(1,824)	—
Exchange of subsidiary equity	6	(6)	—	—	—	—	—	—	—
Capital contributions, net	—	—	—	—	—	—	—	—	1,228
Distributions	—	—	—	—	—	—	(22,591)	(22,591)	—
Dividends	—	—	—	(37,353)	(48,965)	—	(48)	(86,366)	—
Balance at March 31, 2019	\$ 556	\$ 80	\$ 142	\$ 69,471	\$ 21,191	\$ (1,658)	\$ 3,168	\$ 92,950	\$ 36,547
	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 stockholders' equity	Redeemable non-controlling interest
Balance at January 1, 2018	\$ 505	\$ 119	\$ 132	\$ 147,910	\$ (37,870)	\$ (873)	\$ (1,858)	\$ 108,065	62,581
Net income	—	—	—	—	41,274	—	26,052	67,326	4,338
Other comprehensive income - foreign currency translation	—	—	—	—	—	429	203	632	—
Other comprehensive income - available for sale investments, net of tax	—	—	—	—	358	(260)	—	98	—
Cumulative impact of changes in ownership of Artisan Partners Holdings LP, net of tax	—	—	—	(383)	—	(35)	418	—	—
Amortization of equity-based compensation	—	—	—	10,043	—	—	4,357	14,400	—
Deferred tax assets, net of amounts payable under tax receivable agreements	—	—	—	3,271	—	—	—	3,271	—
Issuance of Class A common stock, net of issuance costs	6	—	—	21,293	—	—	—	21,299	—
Forfeitures and employee/partner terminations	—	(11)	11	—	—	—	—	—	—
Issuance of restricted stock awards	15	—	—	(15)	—	—	—	—	—
Employee net share settlement	(1)	—	—	(1,210)	—	—	(594)	(1,805)	—
Exchange of subsidiary equity	10	(5)	(5)	—	—	—	—	—	—
Purchase of equity and subsidiary equity	—	(6)	—	(21,472)	—	—	—	(21,478)	—
Capital Contributions, net	—	—	—	—	—	—	—	—	14,733
Distributions	—	—	—	—	—	—	(22,683)	(22,683)	—
Dividends	—	—	—	(70,436)	278	—	(47)	(70,205)	—
Balance at March 31, 2018	\$ 535	\$ 97	\$ 138	\$ 89,001	\$ 4,040	\$ (739)	\$ 5,848	\$ 98,920	\$ 81,652

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 Three Months Ended March 31,	
	2019	2018
Cash flows from operating activities		
Net income before noncontrolling interests	\$49,818	\$71,664
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,471	1,265
Deferred income taxes	7,493	7,252
Asset impairment	2,003	—
Noncash lease expense	745	(25)
Net (gain) loss on seed investment securities	(1,615)	(321)
Loss on disposal of property and equipment	17	5
Amortization of debt issuance costs	114	114
Share-based compensation	12,349	14,400
Net investment (gain) loss of consolidated investment products	(2,346)	(6,285)
Purchase of investments by consolidated investment products	(36,758)	(332,365)
Proceeds from sale of investments by consolidated investment products	16,871	339,686
Change in assets and liabilities resulting in an increase (decrease) in cash:		
Accounts receivable	(11,566)	1,935
Prepaid expenses and other assets	(862)	1,643
Accounts payable and accrued expenses	48,695	67,318
Net change in operating assets and liabilities of consolidated investment products	7,425	1,038
Net cash provided by operating activities	93,854	167,324
Cash flows from investing activities		
Acquisition of property and equipment	(1,284)	(301)
Leasehold improvements	(3,554)	(528)
Net cash used in investing activities	(4,838)	(829)
Cash flows from financing activities		
Partnership distributions	(22,591)	(22,683)
Dividends paid	(86,366)	(70,205)
Net proceeds from issuance of common stock	—	21,478
Payment of costs directly associated with the issuance of Class A common stock	—	(88)
Purchase of equity and subsidiary equity	—	(21,478)
Taxes paid related to employee net share settlement	(1,824)	(1,805)
Capital contributions to consolidated investment products, net	1,228	14,733
Net cash used in financing activities	(109,553)	(80,048)
Net increase (decrease) in cash and cash equivalents	(20,537)	86,447
Cash, cash equivalents and restricted cash		
Beginning of period	175,535	159,796
End of period	\$154,998	\$246,243
Cash, cash equivalents and restricted cash as of the end of the period		
Cash and cash equivalents	\$152,217	\$200,831
Restricted cash	629	629
Cash and cash equivalents of consolidated investment products	2,152	44,783
Cash, cash equivalents and restricted cash	\$154,998	\$246,243

Supplementary information

Noncash activity:

Establishment of deferred tax assets	\$7,069	\$ 18,325
Establishment of amounts payable under tax receivable agreements	5,389	15,054
Operating lease assets obtained in exchange for operating lease liabilities	2,191	—

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 share and per share amounts and as otherwise indicated)

Note 1. Nature of Business and Organization

Nature of Business

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

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

Organization

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

As the sole general partner, APAM controls the business and affairs of Holdings. As a result, APAM consolidates Holdings’ financial statements and records a noncontrolling interest for the equity interests in Holdings held by the limited partners of Holdings. At March 31, 2019, APAM held approximately 71% of the equity ownership interest in Holdings.

Holdings, together with its wholly owned subsidiary, Artisan Investments GP LLC (“AIGP”), controls 100% interest in Artisan Partners Limited Partnership (“APLP”), a multi-product investment management firm that is the principal operating subsidiary of Artisan Partners Holdings. APLP is registered as an investment adviser with the U.S. Securities and Exchange Commission under the Investment Advisers Act of 1940. APLP provides investment advisory services to traditional separate accounts and pooled investment vehicles, including Artisan Partners Funds, Inc. (“Artisan Funds”), Artisan Partners Global Funds plc (“Artisan Global Funds”), and Artisan sponsored private funds (“Artisan Private Funds”). Artisan Funds are a series of open-end, diversified mutual funds registered under the Investment Company Act of 1940, as amended. Artisan Global Funds is a family of Ireland-domiciled UCITS.

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. The consolidation guidance requires an analysis to determine if an entity should be evaluated for consolidation using the voting interest entity (“VOE”) model or the variable interest entity (“VIE”) model. Under the VOE model, controlling financial interest is generally defined as a majority ownership of voting interests. Under the VIE model, controlling financial interest is defined as (i) the power to direct activities that most significantly impact the economic performance of the entity and (ii) the right to receive potentially significant benefits or the obligation to absorb potentially significant losses. Artisan generally consolidates VIEs in which it meets the power criteria and holds an equity ownership interest of greater than 10%. The consolidated financial statements include the accounts of APAM and all subsidiaries or other entities in which APAM has a direct or indirect controlling financial interest. All material intercompany balances have been eliminated in consolidation.

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Artisan serves as the investment adviser to Artisan Funds, Artisan Global Funds and Artisan Private Funds. Artisan Funds and Artisan Global Funds are corporate entities the business and affairs of which are managed by their respective boards of directors. The shareholders of the funds retain voting rights, including rights to elect and reelect members of their respective boards of directors. Each series of Artisan Funds is a VOE and is separately evaluated for consolidation under the VOE model. The shareholders of Artisan Global Funds lack simple majority liquidation rights, and as a result, each sub-fund of Artisan Global Funds is evaluated for consolidation under the VIE model. Artisan Private Funds are also evaluated for consolidation under the VIE model because third-party equity holders of the funds generally lack the ability to divest Artisan of its control of the funds.

From time to time, the Company makes investments in Artisan Funds, Artisan Global Funds, and Artisan Private Funds. If the investment results in a controlling financial interest, APAM consolidates the fund, and the underlying activity of the entire fund is included in Artisan's Unaudited Consolidated Financial Statements. As of March 31, 2019, Artisan had a controlling financial interest in three sub-funds of Artisan Global Funds and one Artisan Private Fund and, as a result, these funds are included in Artisan's Unaudited Consolidated Financial Statements. Because these consolidated investment products meet the definition of investment companies under U.S. GAAP, Artisan has retained the specialized industry accounting principles for investment companies in the consolidated financial statements. See Note 6, "Variable Interest Entities and Consolidated Investment Products" for additional details.

Recent accounting pronouncements

Accounting standards adopted as of January 1, 2019

In February 2016, the FASB issued ASU 2016-02, *Leases*, which introduces a lessee model that brings most leases on the balance sheet. The Company adopted the new standard on January 1, 2019, using the modified retrospective transition method that does not adjust comparative periods. The adoption had no impact on previously reported results, and did not result in a cumulative-effect adjustment to the opening balance of retained earnings. In accordance with the adoption of the new lease standard, the Company recorded operating lease assets of \$95.9 million and operating lease liabilities of \$107.5 million as of March 31, 2019. The adoption of ASU 2016-02 had no impact on the Unaudited Consolidated Statements of Operations for the three months ended March 31, 2019, and did not impact operating, financing or investing cash flows in the Unaudited Consolidated Statements of Cash Flows for the three months ended March 31, 2019.

Artisan elected to adopt the short-term lease exemption, which allows companies to exclude contracts that have an initial term of 12 months or less. Artisan also elected the package of practical expedients available for existing contracts which allowed the Company to carry forward historical assessments of (1) whether contracts are or contain leases, (2) lease classification, and (3) initial direct costs. Additionally, Artisan elected the practical expedient to account for lease and non-lease components as a single component. See Note 15, "Leases" for additional information.

Accounting standards not yet adopted

In August 2018, the FASB issued ASU 2018-15, *Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*, which aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The capitalized implementation costs will be expensed over the term of the hosting arrangement. The Company currently expenses implementation costs in hosting arrangements as the costs are incurred. The new guidance will be effective on January 1, 2020. The Company is currently evaluating the impact of adoption on the consolidated financial statements, but expects certain types of costs will be capitalized that would have previously been expensed as incurred.

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Note 3. Investment Securities

The disclosures below include details of Artisan’s investments, excluding money market funds and consolidated investment products.

Investments held by consolidated investment products are described in Note 6, “Variable Interest Entities and Consolidated Investment Products”.

	As of March 31, 2019	As of December 31, 2018
Investments in equity securities	\$6,693	\$ 5,857
Investments in equity securities accounted for under the equity method	13,978	12,252
Total investment securities	\$20,671	\$ 18,109

Artisan’s investments in equity securities consist of investments in shares of Artisan Funds, Artisan Global Funds and Artisan Private Funds. The table below presents the net investment income activity related to the investment securities:

	For the Three Months Ended March 31, 2019 2018	
Net gains (losses) recognized on investment securities	\$1,615	\$321
Less: Net realized gains (losses) recognized on investment securities sold during the period	\$—	\$—
Unrealized gains (losses) recognized on investment securities held as of the end of the period	\$1,615	\$321

Note 4. Fair Value Measurements

The table below presents information about Artisan’s assets and liabilities that are measured at fair value and the valuation techniques Artisan utilized to determine such fair value. The financial instruments held by consolidated investment products are excluded from the table below and are presented in Note 6, “Variable Interest Entities and Consolidated Investment Products”.

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

• Level 1 – Observable inputs such as quoted (unadjusted) market prices in active markets for identical securities.

• Level 2 – Other significant observable inputs (including but not limited to quoted prices for similar instruments, interest rates, prepayment speeds, credit risk, etc.).

• Level 3—Significant unobservable inputs (including Artisan’s own assumptions in determining fair value).

The following provides the hierarchy of inputs used to derive fair value of Artisan’s assets and liabilities that are financial instruments as of March 31, 2019 and December 31, 2018:

Assets and Liabilities at Fair Value					
NAV					
Practical					
Total	Expedient (No Fair Value Level)	Level 1	Level 2	Level 3	
March 31, 2019					
Assets					
Money market funds	\$40,108	\$—	\$40,108	\$—	\$—
Equity securities	20,671	12,898	7,773	—	—
December 31, 2018					
Assets					
Money market funds	\$57,790	\$—	\$57,790	\$—	\$—
Equity securities	18,109	12,252	5,857	—	—

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Fair values determined based on Level 1 inputs utilize quoted market prices for identical assets. Level 1 assets generally consist of money market funds, open-end mutual funds and UCITS funds. Equity securities without a fair value level consist of the Company's investment in one of the Artisan Private Funds, which is measured at the underlying fund's net asset value ("NAV"), using the ASC 820 practical expedient. The NAV is provided by the fund and is derived from the fair values of the underlying investments as of the reporting date. Cash maintained in demand deposit accounts is excluded from the table above.

Note 5. Borrowings

Artisan's borrowings consist of the following as of March 31, 2019 and December 31, 2018:

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

The fair value of borrowings was approximately \$202.6 million as of March 31, 2019. Fair value was determined based on future cash flows, discounted to present value using current market interest rates. The inputs are categorized as Level 2 in the fair value hierarchy, as defined in Note 4, "Fair Value Measurements".

Interest expense incurred on the unsecured notes and revolving credit agreement was \$2.7 million for the three months ended March 31, 2019 and 2018.

As of March 31, 2019, the aggregate maturities of debt obligations, based on their contractual terms, are as follows:

2019	\$50,000
2020	—
2021	—
2022	90,000
2023	—
Thereafter	60,000
Total	\$200,000

Note 6. Variable Interest Entities and Consolidated Investment Products

Artisan serves as the investment adviser for various types of investment products, consisting of both VIEs and VOEs. Artisan consolidates an investment product if it has a controlling financial interest in the entity. Any such entities are collectively referred to herein as consolidated investment products or CIPs.

As of March 31, 2019, Artisan is considered to have a controlling financial interest in three sub-funds of Artisan Global Funds and one Artisan Private Fund. As of March 31, 2019, the aggregate amount of Artisan's direct equity investment in the consolidated investment products was \$30.5 million.

Artisan's maximum exposure to loss in connection with the assets and liabilities of CIPs is limited to its direct equity investment, while the potential benefit is limited to the management fee and incentive allocation received and the return on its equity investment. With the exception of Artisan's direct equity investment, the assets of CIPs are not available to Artisan's creditors, nor are they available to Artisan for general corporate purposes. In addition, third-party investors in the CIPs have no recourse to the general credit of the Company.

Management fees and incentive allocations earned from CIPs are eliminated from revenue upon consolidation. See Note 16, "Related Party Transactions" for additional information on management fees and incentive allocations earned from CIPs.

Third-party investors' ownership interest in CIPs is presented as redeemable noncontrolling interest in the Unaudited Condensed Consolidated Statements of Financial Condition as third-party investors have the right to withdraw their capital, subject to certain conditions. Net income attributable to third-party investors is reported as net income attributable to noncontrolling interests - consolidated investment products in the Unaudited Consolidated Statements of Operations.

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During the three months ended March 31, 2019, the Company determined that it no longer had a controlling financial interest in one sub-fund of Artisan Global Funds as a result of third party capital contributions. Upon loss of control, the VIE was deconsolidated and the related assets, liabilities, and equity of the fund were derecognized from the Company's Unaudited Condensed Consolidated Statements of Financial Condition.

There was no net impact to the Unaudited Consolidated Statements of Operations for the three months ended March 31, 2019. Artisan generally does not recognize a gain or loss upon deconsolidation of investment products as the assets and liabilities of CIPs are carried at fair value.

Artisan's \$0.9 million direct equity investment was reclassified from investment assets of consolidated investment products to investment securities.

As of March 31, 2019, Artisan held direct equity investments of \$14.0 million in VIEs for which Artisan is not the primary beneficiary. These direct equity investments consisted of seed investments in one sub-fund of Artisan Global Funds and one Artisan Private Fund, both which are accounted for under the equity method of accounting because Artisan has significant influence over the funds.

Fair Value Measurements - Consolidated Investment Products

The carrying value of CIPs' investments is also their fair value. Short and long positions on equity securities are valued based upon closing prices of the security on the exchange or market designated by the accounting agent or pricing vendor as the principal exchange. The closing price may represent last sale price, official closing price, a closing auction or other information depending on market convention. Short and long positions on fixed income instruments are valued at market value. Market values are generally evaluations based on the judgment of pricing vendors, which may consider, among other factors, the prices at which securities actually trade, broker-dealer quotations, pricing formulas, estimates of market values obtained from yield data relating to investments or securities with similar characteristics and/or discounted cash flow models that might be applicable.

The following tables present the fair value hierarchy levels of assets and liabilities held by CIPs measured at fair value as of March 31, 2019 and December 31, 2018:

Assets and Liabilities at Fair Value

Total	Level 1	Level 2	Level 3	
--------------	----------------	----------------	----------------	--

March 31, 2019

Assets

Money market funds	\$ 1,102	\$ 1,102	\$ —	\$ —
Equity securities - long position	6,881	6,881	—	—
Fixed income instruments - long position	70,448	—	70,448	—
Derivative assets	665	—	665	—

Liabilities

Equity securities - short position	\$ —	\$ —	\$ —	\$ —
Fixed income instruments - short position	8,285	—	8,285	—
Derivative liabilities	195	43	152	—

Assets and Liabilities at Fair Value

Total	Level 1	Level 2	Level 3	
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December 31, 2018

Assets

Money market funds	\$ 13,141	\$ 13,141	\$ —	\$ —
Equity securities - long position	7,817	7,196	—	621
Fixed income instruments - long position	57,621	—	57,621	—
Derivative assets	735	—	735	—

Liabilities

Equity securities - short position	\$ —	\$ —		
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