ARTISAN PARTNERS

Pillar 3 Disclosures – Artisan Partners UK LLP

INTRODUCTION

The Capital Requirements Directive ("CRD") for the financial services industry introduced a supervisory framework in the European Union which reflects the Basel II and Basel III rules on capital measurement and capital standards. The financial services industry has applied CRD from 1 January 2007. The framework consists of three Pillars:

- Pillar 1 sets out the minimum capital requirements of firms to cover credit, market and operational risk;
- Pillar 2 requires firms to assess whether they should hold additional capital in respect of risks not covered in Pillar 1;
- Pillar 3 requires firms to publicly disclose information relating to their risks, capital adequacy and policies for managing risk. The aim of the disclosure is to improve market discipline.

The CRD establishes a regulatory capital framework governing the amount and type of capital that must be maintained by credit institutions and investment firms based on the provisions of the Basel II Capital Accord.

CRD IV, effective from 1 January 2014, implements the Basel III agreement in the European Union. It was designed primarily for credit institutions but is also applicable to certain investment firms. Neither Artisan Partners UK LLP ("APUK") nor Artisan Partners UK consolidation group ("the group") fall into this category and therefore remain subject to CRD III requirements. The group consists of APUK and Artisan Partners Limited ("APL").

The CRD is implemented in the United Kingdom by the UK regulators, The Prudential Regulatory Authority ("PRA") and the Financial Conduct Authority ("FCA"). APUK is categorised as a 'BIPRU firm' and is subject to the FCA's rules contained in the General Prudential Sourcebook (GENPRU) and the Prudential Sourcebook for Banks, Building Societies and Investment Firms (BIPRU). APL is not regulated on a solo basis, but as part of the UK Group is subject to the same rules as APUK. Chapter 11 of BIPRU sets out the disclosure requirements in relation to Pillar 3. The disclosures in this document are designed to comply with these requirements and relate to APUK on an individual basis.

Disclosure Policy

BIPRU 11 provides that a firm is permitted to omit one or more required disclosures if the information is immaterial or could be regarded as confidential or proprietary in nature. APUK regards information as material in disclosures if its omission or misstatement could change or influence the assessment or decision of a user relying on that information for the purpose of making economic decisions. If APUK deems a certain disclosure to be immaterial, it may be omitted. APUK regards information as proprietary if sharing that information with the public would undermine its competitive position. Proprietary information may include information on products, investments held in those products strategies, clients and investors or systems which, if shared with competitors or publically, could render APUK's services less valuable. Further, APUK must regard information as confidential if there are obligations to customers or other counterparty relationships binding APUK to confidentiality. In the event that any such information is omitted, APUK shall disclose such and explain the grounds why it has not been disclosed.

Unless otherwise stated, all figures are based on the audited financial statements of APUK for the year ended 31 December 2016.

Frequency of Publication, Verification and Publication

The disclosures will be reviewed annually or more frequently if appropriate. Disclosures will be published as soon as practicable after the completion of APUK's annual financial statements and Internal Capital Adequacy Assessment Process ("ICAAP").

The information contained in this document has not been audited by APUK's external auditors and does not constitute any form of financial statement and must not be relied upon in making any judgment on the group or APUK.

The Pillar 3 Disclosure is published on APUK's website (www.artisanpartnersglobal.com)

SCOPE, APPLICATION AND BACKGROUND

APUK is an investment management firm, first authorised by the FCA in July 2010. APUK does not hold client money. APUK distributes Artisan Partners Global Funds Plc. and investment strategies managed by Artisan Partners Limited Partnership ("APLP").

APUK has assessed its material risks in the ICAAP and set out appropriate actions to manage them.

APUK is required to disclose its risk management objectives and policies and all relevant areas related to this process. APUK's risk management framework is discussed in more detail below.

APUK is regulated in the UK by the FCA and is classified as a BIPRU Limited Licence €50k firm. APL is the parent financial holding company of the group, which is comprised of APL and the APUK. APL is the principal member of APUK, with 91% voting rights. This Pillar 3 disclosure document covers APUK, as the only regulated entity in the group. APUK is categorised as a solo regulated entity with an EEA parent.

Artisan Partners II Limited ("APIIL"), the second member of APUK, controls 9% of the voting rights, so is not considered part of the FCA consolidation group.

For the purpose of FCA classification, APUK is a BIPRU Investment Firm without an investment firm consolidation waiver deducting material holdings under (GENPRU 2 Annex 4).

RISK MANAGEMENT OBJECTIVES AND POLICIES

Risk Management Objective

APUK has a risk management objective to develop systems and controls to mitigate risk to a level consistent with its risk appetite. APUK's risk management objective and policies are supported by a risk management framework which establishes the governance arrangements and the principals of how risk is to be identified, assessed, quantified, monitored and controlled. The key risk management responsibilities are allocated as shown below:

Governance Framework

APL, the founding partner of APUK, is responsible for overall governance of APUK. In compliance with the terms of the Limited Liability Partnership Agreement of APUK, APL has appointed the APUK Advisory Committee ("Advisory Committee"), which includes the directors of APL, as well as other management within APUK. The Advisory Committee is responsible for the day-to-day oversight of the governance and risk management activities of APUK.

The Board of APL is responsible for the total process of risk management, as well as forming its own opinion on the effectiveness of the process. The Board of APL sets the risk strategy policies and decides APUK's appetite or tolerance for risk – those risks it will accept and those it will not take in the pursuit of APUK's goals and objectives. More detail surrounding this appetite, can be found in the ICAAP document. In addition, the Board of APL ensures that APUK has implemented an effective, on-going process to identify risk, to measure its potential impact against a broad set of assumptions and then to ensure that such risks are actively managed. The Board of APL and the APUK Advisory Committee meet at least twice each year.

Management is accountable for designing, implementing and monitoring the risk management process and implementing it into the day-to-day business activities of APUK. Management is responsible for effectively communicating APUK's approach and commitment to establishing and maintaining an effective risk management framework and approach. Management is also responsible for ensuring that employees are adequately equipped with the right tools and knowledge to enable them to fulfil their obligations to the risk management process.

Risk Framework

The APUK Risk Framework consists of the following key elements:

- **Risk Strategy and Governance** – As detailed above, the Board of APL define APUK's risk appetite statement. Risk management responsibilities are determined, which aim to achieve clear accountability and delegation of authority. The role the various parts of the organization play in the risk management process is defined.
- **Risk Identification, Assessment and Quantification** – Identifies, categorises, describes, assesses and prioritises risks. This is recorded in the material risk register. The impact of specific risks is quantified using data from a range of internal and external sources. The material risk register is reviewed by the Board of APL and the Advisory Committee.
- **Scenario Testing** – APUK identifies material risks to the business and applies scenario analyses and stress tests in order to assist in risk management and capital planning;
- **Risk Reporting, Monitoring and Control** – Oversight of APUK's risk management has been delegated to the Advisory Committee. Those key risks identified are monitored to determine if they remain within the specified parameters. Any issues identified during this process would be reported to the Board of APL.

Integrated into this risk management framework is a 'three lines of defence model, so that new risks can be identified and investigated as early as possible.

1. As the first line of defence, management and senior employees in each department are responsible for maintaining effective internal controls and for executing risk and control procedures on a day-to-day

basis. In each role, the individual identifies and assesses, and when appropriate, controls and mitigates risks to ensure that activities are consistent with APUK's long term business model. Employees are encouraged to raise any concerns they may have with specific or emerging risks in their area, which helps the process to evolve as the business grows and changes. An example would be the UK finance department, which is responsible for management and statutory financial reporting, maintenance of the ICAAP, oversight of cash management, liquidity planning and management and ongoing monitoring of capital adequacy. Any risks in these areas should be recognised by the UK finance team initially and any concerns should be raised in the appropriate way. The Artisan Partners Holdings ("APH") finance team support and assist in this process.

2. As the second line of defence, the APH legal and compliance department supports and monitors the risk and control procedures of the UK Group. In this role, the legal and compliance department provides guidance and advice on compliance with policies and procedures and new and existing regulatory requirements and ethical standards. The legal and compliance department also monitors and tests compliance with the firm's policies and procedures, applicable laws and regulations, contractual requirements and ethical standards.

3. As the third line of defence, the internal audit department provides the Board of APL and management with independent and objective assurance on the effectiveness of the risk management, governance and internal controls. In this role, internal audit examines, evaluates and reports on the adequacy and effectiveness of risk management, internal controls and the governance policy.

In addition to the controls mentioned above, the Artisan Group has also formed the Artisan Risk and Integrity Committee ("ARIC"). The ARIC provides oversight of enterprise ‑ wide actions, values, and outcomes in order to identify potential events which are consistent with Artisan's philosophy, business model, and client commitments. The ARIC interacts with the firm's management committees and functional management in order to identify and assess potential trends and/or exposures and provide aggregated reporting to the Executive Committee. The activities of APUK are assessed as part of the ARIC's work

CAPITAL RESOURCES AND CAPITAL REQUIREMENT

Capital adequacy is assessed formally on a regular basis. This involves comparing capital resources with the capital requirement and assessing whether there is a sufficient surplus of capital resources. APUK's capital resources are entirely Tier 1 capital, the highest ranking form of capital. APUK's Tier 1 capital consists of capital contributions and audited reserves.

APUK's capital requirement is the higher of Pillar 1 capital plus Pillar 2 capital (as described below) or the wind down requirement. The wind down requirement is the forecasted cost of winding the business down in an orderly manner, which takes all contractual obligations into consideration. APUK's regulatory capital requirement is its wind down requirement.

Pillar 1 capital requirement

APUK is a limited licence firm. This means that it's minimum regulatory capital requirement (Pillar 1) is the highest of the following three calculations:

- It's base capital requirement of €50,000.
- The sum of its market and credit risk requirements
- It's fixed overhead requirement (which represents 25% of expenses from the most recent set of audited

financial statements less non-recurring expenses)

For its Pillar 1 regulatory capital calculation of credit risk, under the credit risk capital component APUK has adopted the standardised approach (BIPRU 3.4) and the simplified method of calculating risk weights (BIPRU 3.5).

Pillar 2 capital requirement

The ICAAP provides an assessment of APUK's risks, risk appetite and determines the level of capital is required to deal with those risks. For each key risk, APUK has identified the probability and severity of the risk materialising and the mitigating factors adopted by the firm. Stress and scenario analysis is also included as part of the process.

The ICAAP assessment is reviewed by the Advisory Committee and Board of APL, on an annual basis or when a material change to the business occurs. The Board reviews and endorses the risk management objective annually or when a material change to the business occurs at the same time as reviewing and signing off the ICAAP document.

The results of the ICAAP analysis together with the Pillar 1 calculations are summarized below:

Credit Risk Capital Requirement	**(£'000's)**
Pillar 1 total	£2,113
Pillar 2 total	£1,633
Wind-down requirement	£4,025
Total capital requirement	**£4,025**
Total regulatory capital	£10,160
Surplus Capital	**£6,135**

REMUNERATION

APUK has adopted a remuneration policy that complies with the requirements of chapter 19A of the FCA's Senior Management Arrangements, Systems and Controls Sourcebook ("SYSC"), as interpreted in accordance with the FCA's guidance publication entitled "General Guidance on Proportionality: The Remuneration Code (SYSC 19A) & Pillar 3 Disclosures on Remuneration (BIPRU 11)" and subsequent items of guidance issued by the FCA.

As a BIPRU Limited Licence firm, APUK falls within proportionality Tier 3. APUK has concluded, on the basis of its size and the nature, scale and complexity of its legal structure and business that it does not need to appoint a remuneration committee. The Advisory Committee maintains and implements the APUK Remuneration Policy. This process includes reviewing the Policy at least annually. The APL Board and management of APUK work in consultation with Executive Management of the Artisan Group to set individual remuneration packages of all employees, directors and partners, including Code Staff in accordance with the FCA rules on remuneration. Code Staff have been identified in accordance with FCA rules.

Remuneration is made up of fixed pay (salary and benefits) and performance-related discretionary bonus pay. Performance-related pay is designed to reflect success or failure against a range of targets.

APUK provides long-term incentives which are designed to link reward with the long-term success of APUK and recognises the responsibility participants have in driving its future success and delivering value for investors. Long-term incentive awards are conditional on the satisfaction of corporate performance measures.