Artisan Partners UK LLP
MIFIDPRU 8 Disclosures
2023

Introduction

The Financial Conduct Authority ("FCA" or "regulator") in the Prudential sourcebook for MiFID Investment Firms in the FCA Handbook ("MIFIDPRU") sets out the detailed prudential requirements that apply to Artisan Partners UK LLP ("APUK" or the "Firm"). Chapter 8 of MIFIDPRU ("MIFIDPRU 8") sets out public disclosure rules and guidance with which the Firm must comply, further to those prudential requirements.

APUK is classified under MIFIDPRU as a small and non-interconnected MIFIDPRU investment firm ("SNI MIFIDPRU Investment Firm"). As such, the Firm is required by MIFIDPRU 8 to disclose information regarding its remuneration policy and practices.

The Firm's Tier 1 capital consists of capital contributions and equity share based payments. This document discloses information on the Firm's own funds and own funds requirements as well as providing information on the Firm's risk management objective and policy. The purpose of these disclosures is to give stakeholders and market participants an insight into the Firm's culture and to assist stakeholders in making more informed decisions about their relationship with the Firm.

This document has been prepared by APUK in accordance with the requirements of MIFIDPRU 8 and is verified by the Governing Body. Unless otherwise stated, all figures are as at the Firm's 31 December 2022 financial year-end.

Remuneration Policy and Practices

Overview

As an SNI MIFIDPRU Investment Firm, APUK is subject to the basic requirements of the MIFIDPRU Remuneration Code (as laid down in Chapter 19G of the Senior management arrangements, Systems and Controls sourcebook in the FCA Handbook ("SYSC"). The purpose of the remuneration requirements is to:

- Promote effective risk management in the long-term interests of the Firm and its clients;
- Ensure alignment between risk and individual reward;
- Support positive behaviours and healthy firm cultures; and
- Discourage behaviours that can lead to misconduct and poor customer outcomes.

The objective of APUK's remuneration policies and practices is to establish, implement and maintain a culture that is consistent with, and promotes, sound and effective risk management and does not encourage risk-taking which is inconsistent with the risk profile of the Firm and the services that it provides to its clients.

In addition, APUK recognises that remuneration is a key component in how the Firm attracts, motivates, and retains quality staff and sustains consistently high levels of performance, productivity, and results. As such, the Firm's remuneration philosophy is also grounded in the belief that its people are the most important asset and provide its greatest competitive advantage.

APUK is committed to excellence, teamwork, ethical behaviour, and the pursuit of exceptional outcomes for its clients. From a remuneration perspective, this means that performance is determined through the assessment of various factors that relate to these values, and by making considered and informed decisions that reward effort, attitude, and results.

Characteristics of the Firm's Remuneration Policy and Practices

Remuneration at APUK is made up of fixed and variable components. The fixed component is set in line with market competitiveness at a level to attract and retain skilled staff. Variable remuneration is paid on a discretionary basis and takes into consideration the Firm's financial performance, and the non-financial performance of the individual in contributing to the Firm's success. Subject to compliance with the Firm's policies and procedures, all staff members are eligible to receive variable remuneration.

The below table summarises the financial and non-financial criteria of performance used across the Firm in assessing the level of variable remuneration to be paid:

	Financial Performance Criteria	Non-Financial Performance Criteria
Firm	Artisan Partners Asset Management (APAM) performance	-
Individual	-	Contribution to the Firm's success, using pre-defined goals, subject to an assessment of compliance with the Firm's policies and procedures.

The fixed and variable components of remuneration are appropriately balanced: the fixed component represents a sufficiently high proportion of the total remuneration to enable the operation of a fully flexible policy on variable remuneration. This allows for the possibility of paying no variable remuneration component, which the Firm would do in certain situations, such as where the Firm's profitability performance is constrained, or where there is a risk that the Firm may not be able to meet its capital or liquidity regulatory requirements.

Governance and Oversight

The Governing Body is responsible for setting and overseeing the implementation of APUK's remuneration policy and practices. In order to fulfil its responsibilities, the Governing Body:

- Is appropriately staffed to enable it to exercise competent and independent judgment on remuneration policies and practices and the incentives created for managing risk, capital, and liquidity.
- Prepares decisions regarding remuneration, including decisions that have implications for the risk and risk management of the Firm.
- Ensures that the Firm's remuneration policy and practices take into account the long-term interests of members, the Artisan Group and other stakeholders in the Firm.
- Ensures that the overall remuneration policy is consistent with the business strategy, objectives, values, and interests of the Firm and of its clients.

APUK's remuneration policy and practices are reviewed annually by the Governing Body.

Quantitative Remuneration Disclosure

For the financial year 1 January to 31 December 2022, the total amount of remuneration awarded to all staff was £8,905,985, of which £4,804,418 comprised the fixed component of remuneration, and £4,101,568 comprised the variable component. For these purposes, ‘staff’ is defined broadly, and includes, employees of the Firm itself, temporary employees and secondees.

Risk Management Objectives and Policies

This section describes APUK’s risk management objectives and policies for the categories of risk addressed by the requirements of the Firm in the following areas:

- Own funds.
- Concentration risk.
- Liquidity.

Business Strategy

APUK primarily provides investment research to its parent company, Artisan Partners Limited Partnership (APLP) and distribution services on behalf of Artisan Partners Global Funds plc (APGF) an Irish domiciled UCITS fund, Artisan Partners Private Funds and the investment management services of APLP.

APUK’s revenue is calculated at cost plus 10%, pursuant to its transfer pricing agreement with its parent, Artisan Partners Holdings LP (APH), which is owned by Artisan Partners Asset Management Inc. (APAM). APH is the holding entity for operating subsidiaries within the Artisan Group. APAM is the public general partner of APH and holds a majority of the economic interest and, as general partner, 100% of the voting rights in APH. Limited partners of APH only have voting rights on certain transactions (such as a merger, consolidation, or dissolution). These limited partners are not involved in the management of APH or its subsidiaries. APAM is a US corporation listed on the New York Stock Exchange (NYSE:APAM).

Should APUK need any additional capital, APH will provide additional capital contributions. It is not anticipated that additional regulatory capital should be required as the Firm is well capitalised.

Costs are controlled to ensure the Firm’s long-term profitability. The business seeks to make investments to expand its business and product lines, and to continuously improve its controls environment.

Own Funds Requirement

APUK is required to maintain own funds that are at least equal to the Firm’s own funds requirement. The own funds requirement is the higher of the Firm’s:

- Permanent minimum capital requirement (“PMR”): The level of own funds required to operate at all times. Based on the MiFID investment services and activities that the Firm currently has permission to undertake this is set at £75,000; and
- Fixed overhead requirement (“FOR”): The minimum amount of capital that APUK would need to have to absorb losses if the Firm has cause to wind-down or exit the market. This is equal to one quarter of the Firm’s relevant expenditure.

The potential for harm associated with APUK’s business strategy, based on the Firm’s own funds requirement, is low. This is due to the relatively stable and consistent growth in the Firm's revenues via its cost-plus model with group companies. A method adopted by the Firm to manage the risk of breach of the Firm’s own funds requirement is the maintenance of a healthy own fund’s surplus above the own fund’s requirement. If the Firm’s own funds drop to an amount equal to 110% of the Firm’s own funds threshold requirement, the Firm will immediately notify its Governing Body, as well as the regulator. The Governing Body will consider the necessary steps required to increase the own funds buffer; this may include injecting additional capital contributions into the Firm.

Concentration Risk

The potential for harm associated with APUK's business strategy, based on the Firm's concentration risk, is low.

APUK receives revenue on a cost-plus transfer pricing model and therefore, considers that it has a safe and predictable revenue stream, including during stressed market conditions. However, the Firm does acknowledge that all its revenue is receivable from the Artisan Group and as such, is exposed to a degree of concentration risk associated with the Artisan Group. This matter is addressed in the Firm's ICARA and considered by the Governing Body at least annually. In addition, APUK deposits its cash with a well-established multinational institution.

Liquidity

The Firm is required to maintain sufficient liquidity to ensure that there is no significant risk that its liabilities cannot be met as they fall due and to ensure that it has appropriate liquid resources in the event of a stress scenario.

The potential for harm associated with APUK's business strategy, based on the Firm's basic liquid assets requirement, is low. APUK typically requests the partial settlement of its transfer pricing revenue from APH monthly. The amount requested ensures APUK has sufficient liquid assets to meet its obligations to at least the end of the following month. APUK also has a secondary bank account which is held with sufficient cash to finance the wind-down of the business if this were ever required. The cash position of the Firm is monitored by the Financial Controller regularly throughout the month, and the Firm would be able to call on its parent undertaking to settle additional transfer pricing revenue accrued as required.

Risk Management Structure

APUK has established a risk management process to ensure that it has effective systems and controls in place to identify, monitor, and manage risks arising in the business. The risk management process is overseen by the Governing Body taking overall responsibility for this process and the fundamental risk appetite of the Firm. The Compliance Officer has responsibility for the implementation and enforcement of the Firm's risk principles.

The Governing Body meets on a regular basis and discusses current projections for profitability, cash flow, regulatory capital, business planning, and risk management. The Governing Body engages in APUK's risks through a framework of policy and procedures having regard to the relevant laws, standards, principles, and rules (including FCA principles and rules) with the aim to operate a defined and transparent risk management framework. These policies and procedures are updated as required.

Annually, the Firm formally reviews its risks, controls, and other risk mitigation arrangements and assesses their effectiveness, the conclusions to this informing the overall risk appetite of the Firm.

A formal update on operational matters is provided to the Governing Body on a quarterly basis. Management accounts demonstrating the continued adequacy of APUK's regulatory capital are reviewed on a regular basis.

Appropriate action is taken where risks are identified that fall outside of the Firm's tolerance levels or where the need for remedial action is required in respect of identified weaknesses in APUK's mitigating controls.

Own Funds

As of 31 December 2022, APUK maintained own funds of £7,642,757. The below regulator-prescribed tables provide a breakdown of the Firm's own funds:

Composition of Regulatory Own Funds			
	Item	**Amount (GBP Thousands)**	**Source Based on Reference Numbers/Letters of the Balance Sheet in the Audited Financial Statements**
1	**OWN FUNDS**	**7,643**	
2	**TIER 1 CAPITAL**	**7,643**	
3	**COMMON EQUITY TIER 1 CAPITAL**	**7,643**	
4	Fully paid up capital instruments	2,770	Members’ capital within equity in the Statement of Financial Position.
5	Share premium	-	
6	Retained earnings	-	
7	Accumulated other comprehensive income	-	
8	Other reserves	7,900	Members' other reserves and profit and loss account within equity in the Statement of Financial Position.
9	Accumulated other comprehensive income	-	
10	Accumulated other comprehensive income	-	
11	(-)TOTAL DEDUCTIONS FROM COMMON EQUITY TIER 1	(3,027) *	N/A
19	CET1: Other capital elements, deductions and adjustments	-	

20	**ADDITIONAL TIER 1 CAPITAL**	**-**	
21	Fully paid up, directly issued capital instruments	-	
22	Share premium	-	
23	(-) TOTAL DEDUCTIONS FROM ADDITIONAL TIER 1	-	
24	Additional Tier 1: Other capital elements, deductions and adjustments	-	
25	**TIER 2 CAPITAL**	**-**	
26	Fully paid up, directly issued capital instruments	-	
27	Share premium	-	
28	(-) TOTAL DEDUCTIONS FROM TIER 2	-	
29	Tier 2: Other capital elements, deductions and adjustments	-	

* Other reserves comprise the credit related to equity settled share-based payments. An adjustment has been made to deduct the value of any credit in other reserves associated with unvested awards, leaving just the value of fully vested equity awards within equity.

Own Funds: Reconciliation of Regulatory Own Funds to Balance Sheet in the Audited Financial Statements				
		Balance Sheet as in Audited Financial Statements	**Under Regulatory Scope of Consolidation**	**Cross-Reference to Above Table**
		As at 31 Dec 2022	As at 31 Dec 2022	
Assets - Breakdown by Asset Classes According to the Balance Sheet in the Audited Financial Statements (in £'000)				
1	Tangible Fixed Assets	61	N/A	N/A
2	Right of Use Assets	641	N/A	N/A
3	Investment in Securities	560	N/A	N/A
4	Trade Receivables	5,594	N/A	N/A
5	Cash	4,860	N/A	N/A
	Total Assets	**11,716**	**N/A**	**N/A**
Liabilities - Breakdown by Liability Classes According to the Balance Sheet in the Audited Financial Statements (in £'000)				
1	Creditors – Due within 12 months	1,046	N/A	N/A
	Total Liabilities	**1.046**	**N/A**	**N/A**
Partners' Equity (in £'000)				
1	Members Capital	2,770	N/A	Section 4
2	Members' Other Reserves	7,900	N/A	Section 8
	Total Shareholders' Equity	**10,670 ****	**N/A**	**N/A**

** Total Shareholders' Equity per the audited financial statements includes the total credit for equity settled share-based payments. Own Funds (Section 1 in above table) have been adjusted to deduct the value of any unvested equity settled share-based payments from Members' Other Reserves. This adjustment means the audited Total Shareholders' Equity balance will not agree to the Own Funds balance in the table above.

Own Funds Requirements

APUK is required to always maintain own funds that are at least equal to the Firm's own funds requirement. The own funds requirement is the minimum requirement of capital the Firm is required to hold, taken as the higher of the PMR and FOR.

The below illustrates the core components of APUK's own funds requirements:

Requirement	£'000
(A) Permanent Minimum Capital Requirement ("PMR")	75
(B) Fixed Overhead Requirement ("FOR")	2,485
(C) Own Funds Requirement	2,485

APUK is also required to comply with overall financial adequacy rule ("OFAR"). This is an obligation on APUK to hold own funds and liquid assets which are adequate, both as to their amount and quality, to ensure that:

- The Firm is able to remain financially viable throughout the economic cycle, with the ability to address any material potential harm that may result from its ongoing activities; and
- The Firm's business can be wound down in an orderly manner, minimising harm to consumers or to other market participants.

Where APUK determines that the FOR is insufficient to mitigate the risk of a disorderly wind-down, the Firm must maintain 'additional own funds required for winding down', above the FOR, that are deemed necessary to mitigate the risks of a disorderly wind-down. Similarly, the Firm must maintain an amount of funds sufficient to mitigate the risk of harm from ongoing operations and to ensure the viability of the Firm throughout economic cycles.

To determine the Firm's own funds threshold requirement, APUK identifies and measures the risk of harm faced by the Firm and considers these risks in light of its ongoing operations and also from a wind-down planning perspective. The Firm then determines the degree to which systems and controls alone mitigate the risk of harm and the risk of a disorderly wind-down, and thereby deduces the appropriate amount of additional own funds required to cover the residual risk.

This process is documented and presented to, and ratified by, the Governing Body on at least an annual basis.