COHEN & STEERS INC
Form 10-Q
November 08, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549
FORM 10-Q
(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2018
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM TO
Commission File Number: 001-32236

COHEN & STEERS, INC.
(Exact Name of Registrant as Specified in its Charter)

Delaware	14-1904657
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
280 Park Avenue New York, NY	10017
(Address of Principal Executive Offices)	(Zip Code)

(212) 832-3232
(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 x No o

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 x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a 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	x	Accelerated filer	o
		Smaller reporting company	o
Non-accelerated filer	o	Emerging growth company	o

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. o

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

The number of shares of the registrant’s common stock, par value $0.01 per share, outstanding as of November 5, 2018 was 46,764,855.

COHEN & STEERS, INC. AND SUBSIDIARIES
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* Items other than those listed above have been omitted because they are not applicable.

Forward-Looking Statements

This report and other documents filed by us contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which reflect management’s current views with respect to, among other things, our operations and financial performance. You can identify these forward-looking statements by the use of words such as “outlook,” “believes,” “expects,” “potential,” “may,” “should,” “seeks,” “predicts,” “intends,” “plans,” “estimates,” “anticipates” or the negative versions of these words or other comparable words. Such forward-looking statements are subject to various risks and uncertainties. Accordingly, there are or will be important factors that could cause actual outcomes or results to differ materially from those indicated in these forward-looking statements. We believe that these factors include, but are not limited to, the risks described in the Risk Factors section of our Annual Report on Form 10-K for the year ended December 31, 2017 (the Form 10-K), which is accessible on the Securities and Exchange Commission’s website at www.sec.gov and on our website at www.cohenandsteers.com. These factors are not exhaustive and should be read in conjunction with the other cautionary statements that are included in this report, the Form 10-K and our other filings with the Securities and Exchange Commission. We undertake no obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise.

PART I—Financial Information

Item 1. Financial Statements

COHEN & STEERS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION (Unaudited)
(in thousands, except share data)

	September 30, 2018	December 31, 2017
ASSETS		
Cash and cash equivalents	$ 164,460	$ 193,452
Investments ($414) [(1)] ($115,902 and $68,101) [(2)]	207,908	108,106
Accounts receivable	60,110	53,854
Due from brokers ($3,748 and $5,410) [(2)]	6,250	6,429
Property and equipment—net	14,196	15,040
Goodwill and intangible assets—net	19,949	20,379
Deferred income tax asset—net	6,686	5,812
Other assets ($1,935 and $931) [(2)]	8,626	7,053
Total assets	$ 488,185	$ 410,125
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Accrued compensation	$ 31,693	$ 41,370
Distribution and service fees payable	8,520	6,231
Income tax payable	18,953	19,892
Due to brokers ($3,793 and $3,203) [(2)]	3,793	3,282
Deferred rent	5,863	5,994
Other liabilities and accrued expenses ($477 and $291) [(2)]	10,294	10,025
Total liabilities	79,116	86,794
Commitments and contingencies (See Note 11)		
Redeemable noncontrolling interest	84,828	47,795
Stockholders' equity:		
Common stock, $0.01 par value; 500,000,000 shares authorized; 51,811,472 and 51,104,593 shares issued at September 30, 2018 and December 31, 2017, respectively	518	511
Additional paid-in capital	590,827	570,486
Accumulated deficit	(96,544)	(137,972)
Accumulated other comprehensive loss, net of tax	(6,143)	(3,671)
Less: Treasury stock, at cost, 5,050,285 and 4,789,608 shares at September 30, 2018 and December 31, 2017, respectively	(164,417)	(153,818)
Total stockholders' equity	324,241	275,536
Total liabilities and stockholders' equity	$ 488,185	$ 410,125

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(1) Pledged as collateral attributable to the consolidated balances of the Cohen & Steers Active Commodities Strategy Fund, Inc. at December 31, 2017.

(2) Asset and liability amounts in parentheses represent the aggregated balances at September 30, 2018 and December 31, 2017 attributable to variable interest entities consolidated by the Company. Refer to Note 4 for further discussion.

See notes to condensed consolidated financial statements

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COHEN & STEERS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)
(in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017 (1)	2018	2017 (1)
Revenue:				
Investment advisory and administration fees	$88,150	$86,252	$257,004	$248,096
Distribution and service fees	7,451	7,808	22,108	22,867
Portfolio consulting and other	2,730	2,727	8,093	8,279
Total revenue	98,331	96,787	287,205	279,242
Expenses:				
Employee compensation and benefits	33,126	31,886	96,788	91,681
Distribution and service fees	13,210	12,968	38,492	39,725
General and administrative	11,634	9,849	35,791	30,733
Depreciation and amortization	1,138	1,111	3,405	3,245
Total expenses	59,108	55,814	174,476	165,384
Operating income	39,223	40,973	112,729	113,858
Non-operating income (loss):				
Interest and dividend income—net	2,747	1,425	7,434	2,710
Gain (loss) from investments—net	413	912	(4,692)	737
Foreign currency gains (losses)—net	(2,113)	(10)	(2,672)	(632)
Total non-operating income (loss)	1,047	2,327	70	2,815
Income before provision for income taxes	40,270	43,300	112,799	116,673
Provision for income taxes	10,539	17,562	28,575	44,993
Net income	29,731	25,738	84,224	71,680
Less: Net (income) loss attributable to redeemable noncontrolling interest	1,059	(656)	4,111	(139)
Net income attributable to common stockholders	$30,790	$25,082	$88,335	$71,541
Earnings per share attributable to common stockholders:				
Basic	$0.66	$0.54	$1.89	$1.54
Diluted	$0.65	$0.53	$1.87	$1.53
Dividends declared per share	$0.33	$0.28	$0.99	$0.84
Weighted average shares outstanding:				
Basic	46,830	46,386	46,778	46,335
Diluted	47,524	47,047	47,327	46,858

(1) Certain amounts have been recast to reflect the Company's adoption of the new revenue recognition accounting standard on January 1, 2018. See Notes 2 and 3 for further discussion of the Company's recently adopted accounting pronouncements and revenue, respectively.

See notes to condensed consolidated financial statements

COHEN & STEERS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)
(in thousands)

	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Net income	$29,731	$25,738	$84,224	$71,680
Less: Net (income) loss attributable to redeemable noncontrolling interest	1,059	(656)	4,111	(139)
Net income attributable to common stockholders	30,790	25,082	88,335	71,541
Other comprehensive income (loss), net of tax:				
Foreign currency translation gain (loss)	(300)	551	(1,377)	1,925
Net unrealized gain (loss) from available-for-sale investments [1]	—	280	—	398
Reclassification to statements of operations of (gain) loss from available-for-sale investments	—	(235)	—	(353)
Other comprehensive income (loss)	(300)	596	(1,377)	1,970
Total comprehensive income attributable to common stockholders	$30,490	$25,678	$86,958	$73,511

(1) Due to the adoption and application of the amendments to the financial instruments accounting standard on January 1, 2018, realized and unrealized gains (losses) from equity investments at fair value are recognized through earnings rather than through other comprehensive income. See Notes 2 and 4 for further discussion of the Company's recently adopted accounting pronouncements and investments, respectively.

See notes to condensed consolidated financial statements

COHEN & STEERS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY AND REDEEMABLE NONCONTROLLING INTEREST (Unaudited)
For the Nine Months Ended September 30, 2018 and 2017
(in thousands)

	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss), Net of Tax	Treasury Stock	Total Stockholders Equity	Redeemable Noncontrolling Interest	Shares of Common Stock, Net
January 1, 2017	$ 504	$ 543,829	$ (127,957)	$ (5,885)	$ (144,677)	$ 265,814	$ 853	45,890
Dividends	—	—	(40,225)	—	—	(40,225)	—	—
Issuance of common stock	7	624	—	—	—	631	—	685
Repurchase of common stock	—	—	—	—	(9,141)	(9,141)	—	(265)
Issuance of restricted stock units	—	1,749	—	—	—	1,749	—	—
Amortization of restricted stock units—net	—	16,626	(285)	—	—	16,341	—	—
Forfeitures of restricted stock units	—	(90)	—	—	—	(90)	—	—
Net income (loss)	—	—	71,541	—	—	71,541	139	—
Other comprehensive income (loss), net of tax	—	—	—	1,970	—	1,970	—	—
Contributions from redeemable noncontrolling interest	—	—	—	—	—	—	45,133	—
Distributions to redeemable noncontrolling interest	—	—	—	—	—	—	(49)	—
September 30, 2017	$ 511	$ 562,738	$ (96,926)	$ (3,915)	$ (153,818)	$ 308,590	$ 46,076	46,310
January 1, 2018	$ 511	$ 570,486	$ (137,972)	$ (3,671)	$ (153,818)	$ 275,536	$ 47,795	46,315
Cumulative-effect adjustment due to the adoption of the new financial instruments accounting standard	—	—	1,095	(1,095)	—	—	—	—
Dividends	—	—	(48,002)	—	—	(48,002)	—	—
Issuance of common stock	7	592	—	—	—	599	—	707
Repurchase of common stock	—	—	—	—	(10,599)	(10,599)	—	(261)
Issuance of restricted stock units	—	2,133	—	—	—	2,133	—	—
Amortization of restricted stock units—net	—	17,647	—	—	—	17,647	—	—
	—	(31)	—	—	—	(31)	—	—

Forfeitures of restricted stock units								
Net income (loss)	—	—	88,335	—	—	88,335	(4,111)	—
Other comprehensive income (loss), net of tax	—	—	—	(1,377)	—	(1,377)	—	—
Contributions from redeemable noncontrolling interest	—	—	—	—	—	—	45,477	—
Distributions to redeemable noncontrolling interest	—	—	—	—	—	—	(4,333)	—
September 30, 2018	$ 518	$ 590,827	$ (96,544)	$ (6,143)	$ (164,417)	$ 324,241	$ 84,828	46,761

See notes to condensed consolidated financial statements

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COHEN & STEERS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(in thousands)

	Nine Months Ended September 30,	
	2018	2017
Cash flows from operating activities:		
Net income	$84,224	$71,680
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Stock-based compensation expense	17,707	16,346
Amortization of deferred commissions	1,265	2,345
Depreciation and amortization	3,405	3,245
Deferred rent	(131)	(175)
Amortization (accretion) of premium (discount) on held-to-maturity investments	(97)	—
(Gain) loss from investments—net	4,692	(737)
Deferred income taxes	(873)	(1,133)
Foreign currency (gain) loss	756	78
Changes in operating assets and liabilities:		
Accounts receivable	(7,012)	(16,131)
Due from brokers	179	(4,988)
Deferred commissions	(799)	(1,401)
Investments within consolidated funds	(54,842)	(61,125)
Other assets	(2,165)	(489)
Accrued compensation	(9,651)	(4,949)
Distribution and service fees payable	2,289	1,472
Due to brokers	511	3,738
Income tax payable	(939)	2,987
Other liabilities and accrued expenses	804	(118)
Net cash provided by (used in) operating activities	39,323	10,645
Cash flows from investing activities:		
Net proceeds (purchases) from redemptions of equity method investments	37	(12)
Purchases of investments	(60,695)	(14,936)
Proceeds from sales of investments	11,144	24,172
Purchases of property and equipment	(2,504)	(2,441)
Net cash provided by (used in) investing activities	(52,018)	6,783
Cash flows from financing activities:		
Issuance of common stock	509	536
Repurchase of common stock	(10,599)	(9,141)
Dividends to stockholders	(46,345)	(38,944)
Distributions to redeemable noncontrolling interest	(4,333)	(49)
Contributions from redeemable noncontrolling interest	45,477	45,133
Net cash provided by (used in) financing activities	(15,291)	(2,465)
Net increase (decrease) in cash and cash equivalents	(27,986)	14,963
Effect of foreign exchange rate changes on cash and cash equivalents	(1,006)	676
Cash and cash equivalents, beginning of the period	193,452	183,234
Cash and cash equivalents, end of the period	$164,460	$198,873

See notes to condensed consolidated financial statements

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COHEN & STEERS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS—(Continued)
(Unaudited)

Supplemental disclosures of cash flow information:
During the nine months ended September 30, 2018 and 2017, the Company paid taxes, net of tax refunds, of approximately $30,344,000 and $43,188,000, respectively.
Supplemental disclosures of non-cash investing and financing activities:
In connection with its stock incentive plan, the Company issued fully vested restricted stock units in the amount of approximately $476,000 and $468,000 for the nine months ended September 30, 2018 and 2017, respectively. For the nine months ended September 30, 2018 and 2017, the Company recorded restricted stock unit dividend equivalents, net of forfeitures, in the amount of approximately $1,657,000 and $1,281,000, respectively.
During the nine months ended September 30, 2018, the Company's proportionate ownership interest in the Cohen & Steers Funds ICAV (ICAV), an Irish alternative investment fund, increased and, as a result, the Company consolidated the assets and liabilities and the results of operations of ICAV.

COHEN & STEERS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Organization and Description of Business
Cohen & Steers, Inc. (CNS) was organized as a Delaware corporation on March 17, 2004. CNS is the holding company for its direct and indirect subsidiaries, including Cohen & Steers Capital Management, Inc. (CSCM), Cohen & Steers Securities, LLC (CSS), Cohen & Steers Asia Limited (CSAL), Cohen & Steers UK Limited (CSUK) and Cohen & Steers Japan, LLC (collectively, the Company).
The Company is a global investment manager specializing in liquid real assets, including real estate securities, listed infrastructure, commodities and natural resource equities, as well as preferred securities and other income solutions. Founded in 1986, the Company is headquartered in New York City, with offices in London, Hong Kong, Tokyo and Seattle.

2. Basis of Presentation and Significant Accounting Policies
The condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The condensed consolidated financial statements set forth herein include the accounts of CNS and its direct and indirect subsidiaries. Intercompany balances and transactions have been eliminated in consolidation.
The condensed consolidated financial statements of the Company included herein are unaudited and have been prepared in accordance with the instructions to Form 10-Q pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). In the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the interim results have been made. The Company’s condensed consolidated financial statements and the related notes should be read together with the consolidated financial statements and the related notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017.
The Company reclassified certain prior period amounts in the condensed consolidated financial statements to conform with the current period presentation.
Recently Adopted Accounting Pronouncements—In May 2017, the Financial Accounting Standards Board (FASB) issued new guidance for modification accounting related to share-based payment transactions in order to provide clarity and to reduce current diversity in practice. This new guidance does not fundamentally change the notion of a modification. Instead, the amendments clarify which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. The amendments became effective on January 1, 2018 and required prospective application. The Company's adoption of the new guidance did not have a material effect on its condensed consolidated financial statements and related disclosures.
In August 2016, the FASB amended the current guidance on the classification of certain cash receipts and payments in the statement of cash flows. This guidance is intended to unify the currently diverse presentations and classifications, including, among other items, distributions received from equity method investees. This amended guidance became effective on January 1, 2018 and was adopted retrospectively. The Company made an accounting policy election to use the Cumulative Earnings Approach when determining whether distributions received from equity method investments should be classified as either operating or investing activities within its condensed consolidated statements of cash flows. The Company's adoption and application of the new guidance did not have a material effect on its condensed consolidated financial statements and related disclosures.

COHEN & STEERS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

In January 2016, the FASB issued new guidance amending the accounting for, among other items, equity investments as well as the presentation and disclosure requirements for financial instruments. This new guidance became effective on January 1, 2018 and required the Company to recognize a cumulative-effect adjustment to the beginning retained earnings of approximately $1,095,000, net of tax. Furthermore, changes in the fair value of the Company’s equity investments carried at fair value are now reported through earnings rather than through other comprehensive income. Additionally, due to the required cumulative-effect method of adoption applied, certain disclosures for prior periods have not been recast to conform with the current period presentation. Lastly, upon adoption of the new guidance, the Company reclassified certain investments previously classified as available-for-sale to trading investments or equity investments at fair value. See Notes 4 and 5 for further discussion about the Company's investments.

In May 2014, the FASB issued new guidance which outlined a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. The core principle of the revenue model is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This new guidance became effective on January 1, 2018 and the Company elected to adopt the standard using the retrospective method, which required the recasting of prior period amounts. The adoption of the new standard did not have a material impact on the timing of recognition for the Company's revenue but did affect the presentation of certain revenue and expenses on either a gross or net basis.

The adoption of the new revenue recognition standard resulted in the following changes to the Company's previously reported results for the periods presented (in thousands):

	Three Months Ended September 30, 2017			Nine Months Ended September 30, 2017		
	Previously Reported	Net Adjustments Due to New Revenue Standard	Recast	Previously Reported	Net Adjustments Due to New Revenue Standard	Recast
Revenue:						
Investment advisory and administration fees	$88,557	$ (2,305)	$86,252	$255,353	$ (7,257)	$248,096
Distribution and service fees	$5,070	$ 2,738	$7,808	$15,220	$ 7,647	$22,867
Expenses:						
Distribution and service fees (1)	$9,575	$ 2,806	$12,381	$29,512	$ 7,868	$37,380
General and administrative	$12,222	$ (2,373)	$9,849	$38,211	$ (7,478)	$30,733

(1) The amount presented in the condensed consolidated statements of operations differs from the amount presented within this table due to the reclassification of certain amounts previously reported as depreciation and amortization.

Accounting Estimates—The preparation of the condensed consolidated financial statements in conformity with GAAP requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities at the dates of the condensed consolidated financial statements and the reported amounts of revenue and expenses during the reporting periods. Management believes the estimates used in preparing the condensed consolidated financial statements are reasonable and prudent. Actual results could differ from those estimates.

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COHEN & STEERS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

Consolidation of Company-sponsored Funds—Investments in Company-sponsored funds and management fees are evaluated at inception and thereafter, if there is a reconsideration event, in order to determine whether to apply the Variable Interest Entity (VIE) model or the Voting Interest Entity (VOE) model. In performing this analysis, all of the Company's management fees are presumed to be commensurate and at market and are therefore not considered variable interests.

A VIE is an entity in which either (i) the equity investment at risk is not sufficient to permit the entity to finance its own activities without additional financial support or (ii) the group of holders of the equity investment at risk lack certain characteristics of a controlling financial interest. The primary beneficiary is the entity that has (i) the power to direct the activities of the VIE that most significantly affect its performance, and (ii) the obligation to absorb losses of the entity or the right to receive benefits from the entity that could potentially be significant to the VIE. Investments and redemptions or amendments to the governing documents of the respective entities could affect an entity's status as a VIE or the determination of the primary beneficiary. The Company assesses whether it is the primary beneficiary of any VIEs identified by evaluating its economic interests in the entity held either directly by the Company and its affiliates or indirectly through employees. VIEs for which the Company is deemed to be the primary beneficiary are consolidated.

Investments in Company-sponsored funds that are determined to be VOEs are consolidated when the Company's ownership interest is greater than 50% of the outstanding voting interests of the fund or when the Company is the general partner of the fund and the limited partners do not have substantive kick-out or participating rights in the fund. The Company records noncontrolling interests in consolidated funds for which the Company's ownership is less than 100%.

Cash and Cash Equivalents—Cash and cash equivalents are on deposit with three major financial institutions and consist of short-term, highly-liquid investments, which are readily convertible into cash and have original maturities of three months or less.

Due from/to Brokers—Company-sponsored funds that are consolidated transact with brokers for certain investment activities. The clearing and custody operations for these investment activities are performed pursuant to contractual agreements. The due from/to brokers balance represents cash and cash equivalents balances at brokers/custodians and/or receivables and payables for unsettled securities transactions.

Investments—Management of the Company determines the appropriate classification of its investments at the time of purchase and re-evaluates such determination on an ongoing basis and at each statement of financial condition date.

At September 30, 2018, the Company's investments were comprised of the following:

- Equity investments at fair value, which includes securities held within the affiliated funds that the Company consolidates, individual securities held directly for the purposes of establishing performance track records and seed investments in Company-sponsored open-end funds where the Company has neither control nor the ability to exercise significant influence.
- Trading investments, which represent securities held within the affiliated funds that the Company consolidates and individual securities held directly for the purposes of establishing performance track records.
- Held-to-maturity investments, which represent fixed income securities recorded at amortized cost.
- Equity method investments, which represent seed investments in which the Company owns between 20-50% of the outstanding voting interests in the affiliated fund or when it is determined that the Company is able to exercise significant influence but not control over the investments. When using the equity method, the Company recognizes its respective share of the affiliated investee fund net income or loss for the period which is recorded as gain (loss) from investments—net in the Company's condensed consolidated statements of operations.

Realized and unrealized gains and losses on equity investments at fair value, trading investments and equity method investments are recorded in gain (loss) from investments—net in the Company's condensed consolidated statements of operations.

COHEN & STEERS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

From time to time, the affiliated funds consolidated by the Company enter into derivative contracts to gain exposure to the underlying commodities markets or to hedge market and credit risks of the underlying portfolios utilizing options and futures contracts. These instruments are measured at fair value based on their settlement price at the close of trading on the associated commodities exchange or board of trade with gains and losses recorded as gain (loss) from investments—net in the Company's condensed consolidated statements of operations. The fair values of these instruments are recorded in other assets or other liabilities and accrued expenses on the Company's condensed consolidated statements of financial condition. At September 30, 2018, none of the outstanding derivative contracts were subject to a master netting agreement or other similar arrangement.

Additionally, from time to time, the Company enters into foreign exchange contracts to hedge its currency exposure related to certain client receivables. These instruments are measured at fair value with gains and losses recorded in foreign currency gains (losses)—net in the Company's condensed consolidated statements of operations. The fair values of these contracts are recorded in other assets or other liabilities and accrued expenses on the Company's condensed consolidated statements of financial condition.

Goodwill and Intangible Assets—Goodwill represents the excess of the cost of the Company's investment in the net assets of an acquired company over the fair value of the underlying identifiable net assets at the date of acquisition. Goodwill and indefinite-lived intangible assets are not amortized but are tested at least annually for impairment by comparing the fair value to their carrying amounts. Finite-lived intangible assets are amortized over their useful lives and are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Redeemable Noncontrolling Interest—Redeemable noncontrolling interest represents third-party interests in the Company's consolidated funds. This interest is redeemable at the option of the investors and therefore is not treated as permanent equity. Redeemable noncontrolling interest is remeasured at redemption value which approximates the fair value at each reporting period.

Investment Advisory and Administration Fees—The Company earns revenue by providing asset management services to institutional accounts and to Company-sponsored open-end and closed-end funds. Investment advisory fees are earned pursuant to the terms of investment management agreements and are based on a contractual fee rate applied to the average assets in the portfolio. The Company also earns administration fees from certain Company-sponsored open-end and closed-end funds pursuant to the terms of underlying administration contracts. Administration fees are based on the average assets under management of such funds. Investment advisory and administration fee revenue is recognized when earned and is recorded net of any fund reimbursements. The investment advisory and administration contracts each include a single performance obligation as the services provided are not separately identifiable and are accounted for as a series satisfied over time using a time-based method (days elapsed). Additionally, investment advisory and administration fees represent variable consideration, as fees are based on average assets under management which fluctuate due to changes in the financial markets.

Distribution and Service Fee Revenue—Distribution and service fee revenue is based on the average daily net assets of certain share classes of the Company's sponsored open-end funds distributed by CSS.

Distribution fee agreements include a single performance obligation that is satisfied at a point in time when an investor purchases shares in a Company-sponsored open-end fund. Distribution fees represent variable consideration, as fees are based on average assets under management which fluctuate due to changes in the financial markets. For both the three and nine months ended September 30, 2018 and 2017, a portion of the distribution fee revenue recognized may relate to performance obligations satisfied (or partially satisfied) in prior periods. Service fee agreements include a single performance obligation as the services provided are not separately identifiable and are accounted for as a series satisfied over time using a time-based method (days elapsed). Service fees represent variable

consideration, as fees are based on average assets under management which fluctuate due to changes in the financial markets.
Portfolio Consulting and Other—The Company earns portfolio consulting and other fees by (i) providing portfolio consulting services in connection with model-based strategy accounts, (ii) earning a licensing fee for the use of the Company's proprietary indexes and (iii) providing portfolio monitoring services related to a number of unit investment trusts. Revenue is earned pursuant to the terms of the underlying contracts and the fee schedules for these relationships vary based

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on the type of services the Company provides for each relationship. The majority of the Company's revenue from portfolio consulting and other is recognized over time and represents variable consideration, as fees are based on average assets under advisement which fluctuate due to changes in the financial markets. Commission income and contingent deferred sales charge (CDSC) fees, which are earned pursuant to specific transactions such as a purchase or sale of fund shares, are recognized at a point in time.

Distribution and Service Fee Expense—Distribution and service fee expense includes distribution fees, shareholder servicing fees and intermediary assistance payments. Distribution and service fee expense is recorded on an accrual basis.

Distribution fee expense represents payments made to qualified intermediaries for (i) assistance in connection with the distribution of the Company's sponsored open-end funds' shares and (ii) for other expenses such as advertising costs and printing and distribution of prospectuses to investors. Such amounts may also be used to pay financial intermediaries for services as specified in the terms of written agreements complying with Rule 12b-1 of the Investment Company Act of 1940 (Rule 12b-1). The Company pays distribution fee expense based on the average daily net assets under management of certain share classes of certain of the funds. Shareholder servicing fee expense represents payments made to qualified intermediaries for shareholder account service and maintenance. These services are provided pursuant to written agreements with such qualified institutions. The Company pays shareholder servicing fee expense generally based on the average assets under management or the number of accounts being serviced. The Company previously recognized certain distribution and service fee revenue and expense on a net basis; however, upon adoption of the new revenue guidance, the Company recognizes such revenue and expense on a gross basis. Intermediary assistance payments represent payments to qualified intermediaries for activities related to distribution, shareholder servicing and marketing and support of the Company's sponsored open-end funds and are incremental to those described above. Intermediary assistance payments are generally based on the average assets under management or the number of accounts being serviced.

Stock-based Compensation—The Company recognizes compensation expense for the grant-date fair value of awards of equity instruments to employees. This expense is recognized over the period during which employees are required to provide service. Forfeitures are recorded as incurred.

Income Taxes—The Company records the current and deferred tax consequences of all transactions that have been recognized on its condensed consolidated financial statements in accordance with the provisions of the enacted tax laws. Deferred tax assets are recognized for temporary differences that will result in deductible amounts in future years at tax rates that are expected to apply in those years. Deferred tax liabilities are recognized for temporary differences that will result in taxable income in future years at tax rates that are expected to apply in those years. The Company records a valuation allowance, when necessary, to reduce deferred tax assets to an amount that more likely than not will be realized. The effective tax rate for interim periods represents the Company's best estimate of the effective tax rate expected to be applied to the full fiscal year.

The calculation of tax liabilities involves dealing with uncertainties in the application of complex tax laws and regulations in a multitude of jurisdictions across the Company's global operations. A tax benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, on the basis of the technical merits. The Company records potential interest and penalties related to uncertain tax positions in the provision for income taxes in the condensed consolidated statements of operations.

Currency Translation and Transactions—Assets and liabilities of subsidiaries having non-U.S. dollar functional currencies are translated at exchange rates at the applicable condensed consolidated statement of financial condition date. Revenue and expenses of such subsidiaries are translated at average exchange rates during the period. The gains or losses resulting from translating non-U.S. dollar functional currency into U.S. dollars are included in the Company's condensed consolidated statements of comprehensive income. The cumulative translation adjustment was $(6,143,000) and $(4,781,000) as of September 30, 2018 and December 31, 2017, respectively. Gains or losses resulting from transactions denominated in currencies other than U.S. dollars are included in other non-operating income (loss) in the condensed consolidated statements

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of operations. Gains and losses arising on revaluation of U.S. dollar-denominated assets and liabilities held by foreign subsidiaries are included in the Company’s condensed consolidated statements of operations.

Comprehensive Income—The Company reports all changes in comprehensive income on the condensed consolidated statements of comprehensive income. Comprehensive income includes net income or loss attributable to common stockholders and amounts attributable to foreign currency translation gain (loss), net of tax.

Recently Issued Accounting Pronouncements—In February 2018, the FASB issued new guidance allowing entities to reclassify certain tax effects related to the enactment of the Tax Cuts and Jobs Act (the Tax Act) from accumulated other comprehensive income (AOCI) to retained earnings. Prior to the issuance of the new guidance, a portion of the previously recognized deferred tax effects recorded in AOCI was "left stranded" in AOCI as the effect of remeasuring the deferred taxes using the reduced federal corporate income tax rate was required to be recorded through income. The new guidance allows these stranded tax effects to be reclassified from AOCI to retained earnings. The new guidance will be effective on January 1, 2019, with early adoption permitted and is to be applied either in the period of adoption or retrospectively to each period in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Act is recognized. The Company expects to adopt the new standard using the prospective method and does not expect the adoption to have a material effect on its condensed consolidated financial statements and related disclosures.

In August 2017, the FASB issued new guidance amending the accounting for hedging activities. The new guidance (i) expands hedge accounting for nonfinancial and financial risk components and amends measurement methodologies to more closely align hedge accounting with an entity's risk management activities, (ii) decreases the complexity of preparing and understanding hedge results through eliminating the separate measurement and reporting of hedge ineffectiveness, (iii) enhances transparency, comparability and understandability of hedge results through enhanced disclosures and changing the presentation of hedge results to align the effects of the hedging instrument and the hedged item and (iv) reduces the cost and complexity of applying hedge accounting by simplifying the manner in which assessments of hedge effectiveness may be performed. The new guidance will be effective on January 1, 2019, with early adoption permitted. The Company does not expect the adoption of the new guidance to have an effect on its condensed consolidated financial statements and related disclosures.

In January 2017, the FASB issued guidance to simplify the goodwill impairment test by removing the requirement to perform a hypothetical purchase price allocation. A goodwill impairment will now be the amount by which a reporting unit’s carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. This new guidance will be effective on January 1, 2020. The Company does not expect the adoption of the new guidance to have a material effect on its condensed consolidated financial statements and related disclosures.

In February 2016, the FASB issued guidance introducing a new lease model which requires lessees to recognize leases on-balance sheet and disclose key information about leasing arrangements. The new guidance establishes a right-of-use model (ROU) that requires a lessee to recognize an ROU asset and lease liability on the balance sheet for all leases with a term longer than 12 months. Leases will be classified as finance or operating, with classification affecting the pattern and classification of expense recognition in the income statement. The guidance also requires disclosures by lessees and lessors to enable users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. In July 2018, the FASB issued amendments to the guidance intended to provide supplemental narrow-scope improvements and clarifications. The new guidance, along with the amendments, is effective on January 1, 2019, with early adoption permitted. Furthermore, the Company is allowed the option of applying certain practical expedients and must apply the new guidance using a modified retrospective approach. While the Company is continuing to assess the effect of adoption, it currently believes the most significant change relates to the recognition of new ROU assets and lease liabilities on its condensed consolidated statements of financial condition for its office space and other operating leases. The Company does not expect a significant change in its leasing activity between now and adoption. Lastly, the Company is still assessing which of the available practical expedients it plans to elect upon adoption.

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3. Revenue

The following tables summarize revenue recognized from contracts with customers by client domicile and revenue by vehicle for the periods presented (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Client domicile:				
North America	$83,377	$80,583	$243,193	$230,249
Japan	8,951	10,415	26,927	32,325
Asia excluding Japan	3,263	2,990	9,356	8,422
Europe	2,740	2,799	7,729	8,246
Total	$98,331	$96,787	$287,205	$279,242

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Vehicle:				
Open-end funds [(1)]	$49,882	$48,570	$145,112	$138,499
Closed-end funds	19,861	19,905	58,171	58,297
Institutional accounts	25,858	25,585	75,829	74,167
Portfolio consulting and other	2,730	2,727	8,093	8,279
Total	$98,331	$96,787	$287,205	$279,242

(1) Included distribution and service fees of $7.5 million and $7.8 million for three months ended September 30, 2018 and 2017, respectively, and $22.1 million and $22.9 million for the nine months ended September 30, 2018 and 2017, respectively.

4. Investments

The following table summarizes the Company’s investments for the periods presented (in thousands):

	September 30, 2018
Equity investments at fair value	$ 59,627
Trading	98,654
Held-to-maturity [(1)]	49,599
Equity method	28
Total investments	$ 207,908

(1) At September 30, 2018, held-to-maturity investments had an amortized cost of approximately $49.6 million and a fair value of approximately $49.5 million, with maturities ranging from 6 to 24 months.

December 31, 2017

Trading	$74,856
Equity method	6,176
Available-for-sale	27,074
Total investments	$108,106

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The Company seeded one new fund during the nine months ended September 30, 2018 and two new funds during the nine months ended September 30, 2017.
The following tables summarize gain (loss) from investments for the periods presented (in thousands):

	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2018
Gain (loss) from investments—net (1)		
Net realized gains (losses) during the period	$ (278)	$ (445)
Net unrealized gains (losses) during the period on investments still held at the end of the period	691	(4,247)
Gain (loss) from investments—net	$ 413	$ (4,692)

(1) Included net income (loss) attributable to redeemable noncontrolling interest for the periods presented.

	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2017
Gain (loss) from trading investments—net (1)	$ 595	$ 870
Equity in earnings (losses) of affiliates—net	82	(486)
Gain (loss) from available-for-sale investments—net	235	353
Total gain (loss) from investments	$ 912	$ 737

(1) Included net income (loss) attributable to redeemable noncontrolling interest for the periods presented.

The following tables summarize the condensed consolidated statements of financial condition attributable to the Company's consolidated VIEs, which included the Cohen & Steers SICAV Global Listed Infrastructure Fund (GLI SICAV), the Cohen & Steers Co-Investment Partnership, L.P. (GRP-CIP), the Cohen & Steers SICAV Global Preferred Securities Fund (SICAV Preferred) and the Cohen & Steers SICAV Diversified Real Assets Fund (SICAV RAP) for the periods presented (in thousands):

	September 30, 2018				
	GLI SICAV	GRP-CIP	SICAV Preferred	SICAV RAP	Total
Assets (1)					
Investments	$5,853	$ 574	$99,749	$9,726	$115,902
Due from brokers	233	118	2,747	650	3,748
Other assets	141	—	1,629	165	1,935
Total assets	$6,227	$ 692	$104,125	$10,541	$121,585
Liabilities (1)					
Due to brokers	$14	$ —	$3,296	$483	$3,793

Other liabilities and accrued expenses	90	5	246	136	477
Total liabilities	$104	$ 5	$3,542	$619	$4,270

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	December 31, 2017			
	GLI SICAV	GRP-CIP	SICAV Preferred	Total
Assets [1]				
Investments	$5,961	$ 1,330	$ 60,810	$68,101
Due from brokers	285	202	4,923	5,410
Other assets	32	—	899	931
Total assets	$6,278	$ 1,532	$ 66,632	$74,442
Liabilities [1]				
Due to brokers	$35	$ —	$ 3,168	$3,203
Other liabilities and accrued expenses	87	5	199	291
Total liabilities	$122	$ 5	$ 3,367	$3,494

(1) The assets may only be used to settle obligations of each VIE and the liabilities are the sole obligation of each VIE, for which creditors do not have recourse to the general credit of the Company.

The following is a summary of the cost, gross unrealized gains, gross unrealized losses and fair value of available-for-sale investments for the year ended December 31, 2017 (in thousands):

	Cost	Gross Unrealized Gains	Gross Unrealized Losses [1]	Fair Value
Common stocks	$6,782	$ 639	$ (183)	$7,238
Company-sponsored funds	13,376	1,269	(13)	14,632
Fixed income	3,966	15	(20)	3,961
Preferred securities	1,100	29	(5)	1,124
Other	100	19	—	119
Total available-for-sale investments	$25,324	$ 1,971	$ (221)	$27,074

(1) At December 31, 2017, there were no securities with unrealized losses continuously for a period of more than 12 months.

Available-for-sale investments with a fair value of approximately $6,086,000 at December 31, 2017 were in an unrealized loss position.

At December 31, 2017, unrealized losses on available-for-sale investments were generally caused by changes in market conditions. When evaluating whether an unrealized loss on an available-for-sale investment is other than temporary, the Company reviews such factors as the extent and duration of the loss as well as qualitative and quantitative information about the financial condition and near-term prospects of the issuers. Furthermore, the Company determined that it had the ability and intent to hold the remaining available-for-sale investments for which no other-than-temporary impairment has occurred until a recovery of fair value. Accordingly, impairment of these investments, if any, was considered temporary.

The following table summarizes sales proceeds, gross realized gains and losses from available-for-sale investments for the periods presented (in thousands):

	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2017
Proceeds from sales	$ 4,444	$ 24,354
Gross realized gains	336	650
Gross realized losses	(101)	(297)

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5. Fair Value

Accounting Standards Codification Topic 820, Fair Value Measurement (ASC 820) specifies a hierarchy of valuation classifications based on whether the inputs to the valuation techniques used in each valuation classification are observable or unobservable. These classifications are summarized in the three broad levels listed below:

- Level 1—Unadjusted quoted prices for identical instruments in active markets.
- Level 2—Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3—Valuations derived from valuation techniques in which significant inputs or significant value drivers are unobservable.

Inputs used to measure fair value might fall in different levels of the fair value hierarchy, in which case the Company defaults to the lowest level input that is significant to the fair value measurement in its entirety. These levels are not necessarily an indication of the risk or liquidity associated with the investments. In determining the appropriate levels, the Company performed a detailed analysis of the assets and liabilities that are subject to ASC 820.

The following table presents fair value measurements as of September 30, 2018 (in thousands):

	Level 1	Level 2	Level 3	Investments Measured at NAV	Investments Carried at Amortized Cost	Total
Cash equivalents	$155,330	$—	$ —	$ —	$ —	$155,330
Equity investments at fair value						
Common stocks	$23,627	$—	$ —	$ —	$ —	$23,627
Company-sponsored funds	11,486	—	—	—	—	11,486
Limited partnership interests	1,444	—	—	574	—	2,018
Preferred securities	20,529	1,853	—	—	—	22,382
Other	—	—	—	114	—	114
Total	$57,086	$1,853	$ —	$ 688	$ —	$59,627
Trading investments						
Fixed income	$363	$98,291	$ —	$ —	$ —	$98,654
Total	$363	$98,291	$ —	$ —	$ —	$98,654
Held-to-maturity investments						
Fixed income	$—	$—	$ —	$ —	$ 49,599	$49,599
Total	$—	$—	$ —	$ —	$ 49,599	$49,599
Equity method investments	$—	$—	$ —	$ 28	$ —	$28
Total investments	$57,449	$100,144	$ —	$ 716	$ 49,599	$207,908
Derivatives - assets						
Commodity contracts	$447	$22	$ —	$ —	$ —	$469
Foreign exchange contracts	—	741	—	—	—	741
Total	$447	$763	$ —	$ —	$ —	$1,210
Derivatives - liabilities						

Commodity contracts	$596	$—	$ —	$ —	$ —	$596
Total	$596	$—	$ —	$ —	$ —	$596

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Cash equivalents were comprised of investments in actively traded U.S. Treasury money market funds measured at NAV.

Equity investments at fair value classified as level 2 were comprised of certain preferred securities with predominately equity-like characteristics whose fair values are generally determined using third-party pricing services. The pricing services may utilize pricing models, and inputs into those models may include reported trades, executable bid and ask prices, broker-dealer quotations, prices or yields of similar securities, benchmark curves and other market information. The pricing services may use a matrix approach, which considers information regarding securities with similar characteristics to determine the valuation for a security.

Trading investments classified as level 2 in the above table were comprised of U.S. Treasury securities held within consolidated funds carried at amortized cost, which approximates fair value, corporate debt securities, as well as certain preferred securities with predominately debt-like characteristics. The fair value amounts were generally determined using third-party pricing services. The pricing services may utilize evaluated pricing models that vary by asset class and incorporate available trade, bid and other market information. Since these securities do not trade on a daily basis, the pricing services evaluate pricing applications and apply available information through processes such as yield curves, benchmarking of like securities, sector groupings, and matrix pricing, to prepare evaluations.

Investments measured at NAV were comprised of certain investments measured at fair value using NAV (or its equivalent) as a practical expedient. These investments were comprised of:

- Equity investments at fair value - limited partner interests in limited partnership vehicles that invest in non-registered real estate funds and the Company's co-investment in a Cayman trust invested in global listed infrastructure securities, both of which are valued based on the NAVs of the underlying investments. At September 30, 2018, the Company did not have the ability to redeem the interests in the limited partnership vehicles; there were no contractual restrictions on the Company's ability to redeem its interest in the Cayman trust.
- Equity method investments - the Company's partnership interest in a Company-sponsored limited partnership that invests in non-registered real estate funds, which approximated its fair value based on the fund's NAV. At September 30, 2018, the Company's ownership in this limited partnership was approximately 0.2%. The Company's risk with respect to this investment is limited to its equity ownership and any uncollected management fees. At September 30, 2018, the Company did not have the ability to redeem this investment.

Held-to-maturity investments were comprised of U.S. Treasury securities held by the Company, which were directly issued by the U.S. government. These securities were purchased with the intent to hold to maturity and are recorded at amortized cost.

Investments measured at NAV and held-to-maturity investments have not been classified in the fair value hierarchy. The amounts presented in the above table are intended to permit reconciliation of the fair value hierarchy to the amounts presented on the condensed consolidated statement of financial position.

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The following table presents fair value measurements as of December 31, 2017 (in thousands):

	Level 1	Level 2	Level 3	Investments Measured at NAV	Total
Cash equivalents	$173,270	$—	$—	$ —	$173,270
Trading investments					
Common stocks	$5,961	$—	$—	$ —	$5,961
Fixed income	—	6,755	—	—	6,755
Limited partnership interests	—	—	605	725	1,330
Preferred securities	7,658	53,152	—	—	60,810
Total	$13,619	$59,907	$605	$ 725	$74,856
Equity method investments	$—	$—	$—	$ 6,176	$6,176
Available-for-sale investments					
Common stocks	$7,238	$—	$—	$ —	$7,238
Company-sponsored funds	14,632	—	—	—	14,632
Fixed income	—	3,961	—	—	3,961
Preferred securities	999	125	—	—	1,124
Other	—	—	—	119	119
Total	$22,869	$4,086	$—	$ 119	$27,074
Total investments	$36,488	$63,993	$605	$ 7,020	$108,106
Derivatives - assets					
Commodity contracts	$487	$—	$—	$ —	$487
Total	$487	$—	$—	$ —	$487
Derivatives - liabilities					
Commodity contracts	$286	$—	$—	$ —	$286
Foreign exchange contracts	—	64	—	—	64
Total	$286	$64	$—	$ —	$350

Cash equivalents were comprised of investments in actively traded U.S. Treasury money market funds measured at NAV.

Trading investments in fixed income securities classified as level 2 in the above table were comprised of U.S. Treasury securities carried at amortized cost, which approximates fair value. Trading investments in preferred securities classified as level 2 were comprised of corporate debt and certain preferred securities. The fair value amounts were generally determined using third-party pricing services. The pricing services may utilize evaluated pricing models that vary by asset class and incorporate available trade, bid and other market information. Since these securities do not trade on a daily basis, the pricing services evaluate pricing applications and apply available information through processes such as yield curves, benchmarking of like securities, sector groupings, and matrix pricing, to prepare evaluations.

Trading investments classified as level 3 in the above table were comprised of a limited partner interest in a limited partnership vehicle that invested in a private equity vehicle that invested directly in real estate which was valued using a contractual selling price.

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Available-for-sale investments classified as level 2 in the above table were primarily comprised of corporate bonds and certain preferred securities whose fair values are generally determined using third-party pricing services. The pricing services may utilize pricing models, and inputs into those models may include reported trades, executable bid and ask prices, broker-dealer quotations, prices or yields of similar securities, benchmark curves and other market information. The pricing services may use a matrix approach, which considers information regarding securities with similar characteristics to determine the valuation for a security.

Investments measured at NAV were comprised of certain investments measured at fair value using NAV (or its equivalent) as a practical expedient. These investments have not been classified in the fair value hierarchy. The fair value amounts presented in the above table are intended to permit reconciliation of the fair value hierarchy to the amounts presented on the condensed consolidated statement of financial position. These investments were comprised of:

- Trading investments - limited partner interests in limited partnership vehicles that invest in non-registered real estate funds, which are valued based on the NAVs of the underlying funds. At December 31, 2017, the Company did not have the ability to redeem these interests.
- Equity method investments - the Company's partnership interests in Company-sponsored limited partnerships. One such partnership invests in private equity vehicles that invest directly in real estate and non-registered real estate funds and the Company did not have the ability to redeem this investment. The other partnership invests indirectly in exchange-traded commodity futures contracts and other commodity-related derivatives and the Company had the ability to redeem this investment monthly at NAV with prior written notice of 5 days.
- Available-for-sale investments - the Company's co-investment in a Cayman trust invested in global listed infrastructure securities. There were no contractual restrictions on the Company's ability to redeem this investment.

The following table summarizes the changes in level 3 investments measured at fair value on a recurring basis for the periods presented (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	Trading Investments Limited Partnership Interests			
Balance at beginning of the period	$—	$1,462	$605	$1,196
Purchases / contributions	—	281	—	419
Sales / distributions	—	—	(598)	—
Realized gains (losses)	—	—	(68)	—
Unrealized gains (losses)	—	(286)[1]	61	(158)[1]
Transfers into (out of) level 3	—	—	—	—
Balance at end of the period	$—	$1,457	$—	$1,457

(1) Pertains to unrealized gains (losses) from investments still held at September 30, 2017.

Realized and unrealized gains (losses) in the above table were recorded as gain (loss) from investments—net in the Company's condensed consolidated statements of operations.

Valuation Techniques

In certain instances, debt, equity and preferred securities are valued on the basis of prices from an orderly transaction between market participants provided by reputable broker-dealers or independent pricing services. In determining the value of a particular investment, independent pricing services may use information with respect to transactions in such investments, broker quotes, pricing matrices, market transactions in comparable investments and various relationships between investments. As part of its independent price verification process, the Company generally performs reviews of valuations

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provided by broker-dealers or independent pricing services. Investments in Company-sponsored funds are valued at their closing price or NAV (or its equivalent) as a practical expedient.

Foreign exchange contracts are valued by interpolating a value using the spot foreign exchange rate and forward points (based on the spot rate and currency rate differentials), which are all inputs that are observable in active markets (level 2).

In the absence of observable market prices, the Company values its investments using valuation methodologies applied on a consistent basis. For some investments, little market activity may exist; management's determination of fair value is then based on the best information available in the circumstances, and may incorporate management's own assumptions and involves a significant degree of judgment, taking into consideration a combination of internal and external factors. Such investments are valued on a quarterly basis, taking into consideration any changes in key inputs and changes in economic and other relevant conditions, and valuation models are updated accordingly. The valuation process also includes a review by the Company's valuation committee which is comprised of senior members from various departments within the Company, including investment management. The valuation committee provides independent oversight of the valuation policies and procedures.

At December 31, 2017, the valuation technique used in the fair value measurement of the Company's level 3 investment, limited partnership interests - direct investment in real estate, of approximately $605,000 was based on a contractual selling price.

6. Derivatives

The following tables summarize the notional and fair value of the derivative financial instruments. The notional amount represents the absolute value of all outstanding derivative contracts for the periods presented (in thousands):

	September 30, 2018			
	Assets		Liabilities	
	Notional	Fair Value	Notional	Fair Value
Commodity contracts	$21,372	$469	$13,004	$ 596
Foreign exchange contracts	18,367	741	—	—
Total derivatives	$39,739	$1,210	$13,004	$ 596

	December 31, 2017			
	Assets		Liabilities	
	Notional	Fair Value	Notional	Fair Value
Commodity contracts	$8,939	$ 487	$6,876	$ 286
Foreign exchange contracts	—	—	12,279	64
Total derivatives	$8,939	$ 487	$19,155	$ 350

Cash included in due from broker on the condensed consolidated statement of financial condition of approximately $883,000 at September 30, 2018 was held as collateral for futures contracts. Investments on the condensed consolidated statements of financial condition of approximately $845,000 and $414,000 at September 30, 2018 and December 31, 2017, respectively, were held as collateral for futures contracts.

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The following table summarizes gains (losses) from derivative financial instruments for the periods presented (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Commodity contracts	$(186)	$124	$(193)	$(732)
Foreign exchange contracts	414	136	805	(1,198)
Total	$228	$260	$612	$(1,930)

7. Earnings Per Share

Basic earnings per share is calculated by dividing net income attributable to common stockholders by the weighted average shares outstanding. Diluted earnings per share is calculated using the treasury stock method by dividing net income attributable to common stockholders by the total weighted average shares of common stock outstanding and common stock equivalents. Common stock equivalents are comprised of dilutive potential shares from restricted stock unit awards and are excluded from the computation if their effect is anti-dilutive.

There were no anti-dilutive common stock equivalents for both the three months ended September 30, 2018 and 2017, as well as for the nine months ended September 30, 2018. Anti-dilutive common stock equivalents of approximately 5,000 shares were excluded from the computation for the nine months ended September 30, 2017.

The following table reconciles income and share data used in the basic and diluted earnings per share computations for the periods presented (in thousands, except per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income	$29,731	$25,738	$84,224	$71,680
Less: Net (income) loss attributable to redeemable noncontrolling interest	1,059	(656)	4,111	(139)
Net income attributable to common stockholders	$30,790	$25,082	$88,335	$71,541
Basic weighted average shares outstanding	46,830	46,386	46,778	46,335
Dilutive potential shares from restricted stock units	694	661	549	523
Diluted weighted average shares outstanding	47,524			