

# A Q&A with Portfolio Manager Daniel Kane

Artisan Partners U.S. Value Team

PORTFOLIO MANAGER  
Viewpoints

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**Dan, happy 16-year Artisan anniversary. You joined Artisan during the '08-'09 financial crisis. I'm sure you have some great stories to tell from those days. What was it like to start your Artisan career at that time?**

**Kane:** I joined Artisan about two weeks after Bear Stearns was purchased at a fire sale by J.P. Morgan, which in retrospect, was an absolute crazy time to be starting a new job. I also got lucky enough to close on the sale of my previous house three days before Lehman Brothers failed. The difficulties for the market were just getting started, and as it turns out, a great time for a value investor to be looking for bargains. So, my first few months at Artisan were a mixture of getting my bearings on the team and jumping in with both feet as we watched a series of financial calamities in rapid succession. I recall founding portfolio manager Scott Satterwhite looking at a screenshot printout of the market, which had gone down 7%-8% in a single trading session, and saying, "Well, you don't see that every day." That was about as excited as it got in the office. I knew I'd come to the right place, where emotions were in check, and collectively we smelled opportunity.

**You have had an interesting journey and career path. How did it start?**

**Kane:** As a young person, I wasn't given much direction or encouragement to further my education. In fact, I was the first person in my extended family to attend college. As such, I joined the U.S. Navy right out of high school. The movie Top Gun was quite influential in this regard, as I suspect it was for others. But I decided after a couple of years that I didn't want to do that for the rest of my life. People read newspapers back then, and I began poring over the financial section, studying the stock tables, examining the economic data and trying to understand what made companies successful. I read financial newspapers and as many books on investing as I could find. I knew this was an interesting world I wanted to be a part of. After six years of Navy life, I went back to the University of Wisconsin at Madison to attend business school. During my junior year of college, I volunteered for an unpaid internship at the State of Wisconsin Investment Board (SWIB) to get my foot in the door, and after I graduated, I took a full-time position there as an analyst.

**What led you to value investing?**

**Kane:** It's interesting to me how there are so many different investment approaches. For me, being a value investor just seemed like a normal extension of life. It was less of a conscious decision and more instinctual to pursue this style of investing. I find value to be something that's embedded in my system of beliefs; something that just makes sense. I always look for bargains when I go to the store, I still use coupons, and I shop online for cheap car parts. Exciting, right? I find it strange that value investors get a bad rap for being stingy or old-fashioned, yet most people avoid paying the highest price possible when buying a new car, a house, a pair of shoes or any other meaningful purchase. Caring about the price you pay for a product or service should be no different than when purchasing a share of a business.

**How did you come to join the Artisan U.S. Value team?**

**Kane:** A couple of years into my time at SWIB, I was working on an IPO. Value guys don't work on IPOs too often. But for some reason, we decided to look at this one. I remember complaining to the UBS broker in Chicago that

**Investment Risks:** Investments will rise and fall with market fluctuations and investor capital is at risk. Investors investing in strategies denominated in non-local currency should be aware of the risk of currency exchange fluctuations that may cause a loss of principal.



**Daniel L. Kane, CFA**  
Portfolio Manager

**25** Years Investment  
Experience



she wasn't valuing the deal correctly. I pointed out UBS wasn't counting all the quasi-debt from a tax-sharing arrangement, which should be a meaningful part of the future cash flow stream diverted away from shareholders. She said I sounded like the people she covered out of Atlanta... a bunch of curmudgeons. She said she should introduce me to them, and she did. For a few years, Scott Satterwhite and I would email each other about stocks, and we met in person a few times. We had a similar way of thinking about how to analyze and price a business. It was about three years after that first introduction, that I joined the team.

### The value investment style has been out of favor for much of the past 10 years and especially in the past year as markets were led by a handful of mega-cap technology companies. Does this signify a permanent change in the economic landscape, or are there reasons to be optimistic about value stocks?

**Kane:** I know there have been suggestions that value investing is dead; something that seems logical when investors' memories and time horizons are so short. Those calls grow louder when the large cap tech names have driven the majority of index performance over the past several years, leaving behind the boring but beautiful value names. However, much of the relative gap between growth and value has had to do with the cost of capital. As central banks dramatically suppressed interest rates after the global financial crisis and then again during COVID-19, with rates approaching zero, the discount rate embedded in many investors' assumptions also shrank. This led to a change in how people viewed the present value of cash flows—that is lower rates meant a higher terminal value for those discounted cash flows—which caused a gravitation to growth-type investments with little near term cash flow and a greater reliance on the future. Fast forward to today. The cost of capital has risen dramatically, and yet the spread between what investors are willing to pay for future growth versus current returns on capital is still close to all-time highs. In other words, value stocks are trading cheaply relative to the rest of the market compared to the past. The market has been clamoring for anything associated with artificial intelligence, data centers, or processing chips. It feels like a frenzy. As I see it, the odds of mean reversion in favor of value stocks are one step closer to occurring.

### What is one thing you absolutely believe that most of your peers might disagree with?

**Kane:** Confidence can be a liability, not an asset. Or more precisely, overconfidence. This industry is full of highly educated people, with lofty degrees from all of the best business schools, who are supremely confident in their ability to pick winners and come to the right conclusions. By definition, investing in the future is uncertain and unknowable. Yet many investors will take massive positions in risky, levered and overvalued securities based on the assumption that they have it all figured out better

than the next person, guaranteeing them a great prospective return. They are willing to bet (with other people's money) that their vision of the future is the most certain and probable. Truth is, none of us know for certain what the future looks like, even the managers of the companies we invest in. To borrow from one of my colleagues, all investing (especially value investing) takes courage and conviction alongside a high awareness of known and unknown risks. On our team, we regularly and consistently tamp down biases, check our egos, avoid hubris, and spend time trying to figure out how we might be wrong. We look for disconfirming evidence contrary to our thesis. Most importantly, we are willing to admit our mistakes and learn from them as we strive to avoid repeating them.

### In the past year, the industry reached a milestone, with the amount of passive assets under management eclipsing active assets under management for the first time. What are your thoughts on the shift to passive and the value of active management?

**Kane:** I understand the reasons why passive investing has gained traction; low-cost index funds, lower turnover and distinct tax advantages related to the ability to benefit from in-kind redemptions are not to be underestimated. However, take the argument for passive to its logical extreme. If we get to 70%, 80%, 90%-plus passive investing globally, where is the mechanism for price discovery going to take place? Who will be left to properly value companies based on their fundamental prospects? Who will hold management teams accountable and force change in businesses that have gone astray? These are but a few questions that arise from a smaller number of interested and active market participants doing securities analysis on a daily basis. We believe that we can construct a portfolio that is better, safer and cheaper than the index, which gives us a tremendous head start to compound capital in a more defensive and risk-aware manner across market cycles. When active managers care about what they pay for a business, unlike passive investing which only buys based on market value, they reduce the risk of overpaying for assets over time.

### What would you be doing if you weren't doing this?

**Kane:** I will always be doing this in some form or fashion. Investing, like learning, is something you can do for the entirety of your life.



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