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THE NEW AMERICA

Asset Manager Artisan Plans Long-Term Growth APAM

BY NORM ALSTER
FOR INVESTOR'S BUSINESS DAILY

It's no secret that investors love growth — and Artisan Partners (NYSE:APAM), a Milwaukee-based asset manager that offers both mutual funds and separate accounts, has supplied it.

But in discussing earnings in February, CEO Eric Colson introduced a novel phrase into the corporate-growth lexicon. He emphasized that Artisan's commitment was to "thoughtful growth."

In a hyper-competitive business environment, where companies may be tempted to pursue growth at any cost, "thoughtful growth" sounds a bit oxymoronic. But it has worked thus far for Artisan.

The company has more than tripled assets under management (AUM) in the last decade. And eight of its 12 mutual funds have earned either four-star or five-star ratings from Morningstar.

"They have a really good batting average," noted Morningstar fund analyst Greg Carlson.

AUM is the key yardstick for companies like Artisan, which typically earn fees based on the volume of dollars they're handed to invest. A rising market swells AUM and makes virtually all asset managers look good.

Beating Benchmarks

But Artisan's record of topping benchmarks has also helped to attract the investment dollars that boost AUM, revenue and earnings. Roughly 90% of Artisan's managed assets have outperformed their benchmarks over trailing one-, three- and 10-year periods, Sandler O'Neill analyst Michael Kim wrote in March.

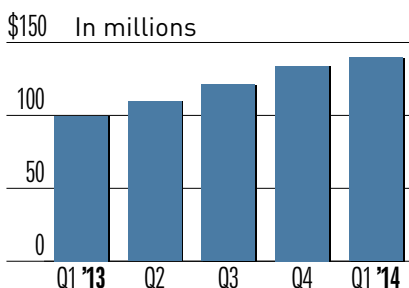
With rising equity prices, outperformance and fund inflows all chipping in, Artisan reported nearly \$107 billion in AUM as of the end of April. That's a far stretch from the \$57 billion it had under management at the end of 2011.

But how does "thoughtful growth" translate into sustained AUM and earnings growth? IBD asked Colson to detail

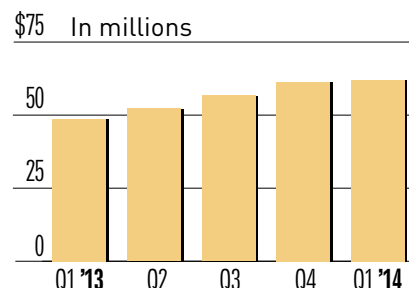
Outperformers On Stage

Artisan Partners has sought strong asset managers whose strategies have delivered returns that attract new clients

Mutual fund revenue



Separate account revenue



Sources: Company reports, Sandler O'Neill

management practices that reflect his "thoughtful growth" philosophy.

Colson cited the willingness to close funds quickly when investor dollars keep pouring in at a time when the market offers few bargains.

But doesn't the closing of a fund choke off AUM growth?

"A lot of people just grow at all costs," said Colson. But that can be counterproductive, he said.

"Sometimes assets can come in too fast. If you're getting millions of dollars every day and have to put it to work, that can weigh on the integrity of a strategy," Colson told IBD in an April interview.

His clear message: Portfolio managers with too much cash can wind up spending it unwisely, eventually degrading long-term performance.

Artisan recently closed its Global Value Strategy fund to new money. Global Value, one of Artisan's prime investment strategies, had \$32.7 billion in AUM at the end of April.

In closing the fund to new money, Colson prioritized long-term performance prospects over short-term revenue gains.

"The valuations were getting fairly high," he said. "The team felt like the discount to intrinsic value was fairly narrow."

If a fund manager buys just because he has the money, long-term performance will suffer. And Artisan emphasizes long-term performance because that's what attracts new money. Benchmark-topping performance also allows Artisan to charge more for its services.

"We tend to have fees that are above average," Colson said.

Artisan's long-term focus extends to other management practices as well.

Said Jefferies analyst Surinder Thind: "They prefer to evaluate their asset-management personnel on an entire business cycle, which could be seven to 10 years. When you focus on the longer term, you can make bets which may not work for the short term. But Artisan management doesn't make you pay the consequences of short-term results."

Multiyear Yardsticks

Colson confirms that he does not judge managers by quarterly or even yearly results.

"People will be down for a year or two or three at times. If you're going to create a differentiated portfolio position, sometimes it takes time to be rewarded for that," he said.

Artisan has proved adept at recruiting top investment talent. Most recently, it recruited fixed-income manager Bryan Krug to establish a new credit strategy. Krug had regularly bested benchmarks as manager of Ivy Funds' Ivy High Income A Fund.

The recruitment of Krug will give Artisan its first fixed-income presence. Until now, all of Artisan's mutual funds and separate accounts have been invested in equities.

Colson pointed to two key factors that enabled Artisan to recruit a successful money manager such as Krug.

First, he was allowed to set up shop where he wanted, which was Kansas City, Kan.

And Artisan was able to convince Krug that he would be able to pursue an independent investment course. "He

didn't want to work with an organization that told him how to invest," said Colson. Investment autonomy is a key lure for independent-minded star managers, he adds.

Equity grants help, too. Artisan employees have a 32% equity interest in the company.

"We've given out equity ownership each year," noted Colson.

For all its enlightened management practices, Artisan, like all asset managers, remains highly vulnerable to a market downturn.

"The asset managers tend to do worse in market declines," noted Morningstar's Carlson.

Since revenue comes from management fees, a market decline hurts in two ways. The value of managed assets shrinks. And investors are more

likely to withdraw money as the market sells off.

Colson concedes the vulnerability and adds that Artisan may be especially challenged by a market meltdown since "we're all equity."

Diversification into fixed income should eventually help. But for now, this new strategy has little in the way of managed assets and is being funded by Artisan seed money.

Over half of Artisan's assets are in mutual funds. But retail investors account for just roughly 6% of all managed assets. In both mutual funds and separate accounts, Artisan's investor base is skewed toward pension funds, endowments and other institutional investors. Colson must hope that his own thoughtful and patient practices will rub off on Artisan clients in tougher times.

Clarification: The statement “90% of Artisan’s managed assets have outperformed their benchmarks over trailing one-, three- and 10-year periods” is based on performance data as of 31-Dec-13. The figure represents the ratio of Artisan Partners assets under management (AUM) managed to Artisan investment strategies that have outperformed their benchmark indexes compared to total AUM for the stated time periods. Performance calculations exclude investment advisory fees and expenses which would reduce outperformance and include only assets managed for strategies in operation throughout the respective time period. The % of AUM in Outperforming Strategies will vary greatly from period to period and does not represent the performance or performance potential of any specific product or service managed by Artisan Partners, including the Artisan Funds.

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	Average Annual Total Returns as of 30-Jun-14 (USD)					Expense Ratio (%) ² Subsidized/Unsubsidized
	1 Yr	3 Yr	5 Yr	10 Yr	Inception	
Artisan Global Opportunities Fund (<i>Inception: 22-Sep-08</i>) MSCI All Country World Index	21.75% 22.95%	13.13% 10.25%	19.79% 14.28%	-- --	12.26% 7.81%	1.28%
Artisan Mid Cap Fund ¹ (<i>Inception: 27-Jun-97</i>) Russell Midcap [®] Growth Index	25.28% 26.04%	14.33% 14.54%	21.55% 21.16%	10.95% 9.83%	14.53% 8.33%	1.29%
Artisan Small Cap Fund ¹ (<i>Inception: 28-Mar-95</i>) Russell 2000 [®] Growth Index	18.55% 24.73%	14.15% 14.49%	21.37% 20.50%	8.01% 9.04%	8.91% 7.64%	1.41%
Artisan Global Equity Fund (<i>Inception: 29-Mar-10</i>) MSCI All Country World Index	17.25% 22.95%	16.28% 10.25%	-- --	-- --	16.03% 10.58%	1.50% ⁴ /1.77% ⁴
Artisan Global Small Cap Fund (<i>Inception 25-Jun-13</i>) MSCI All Country World Small Cap Index	23.27% 25.97%	-- --	-- --	-- --	24.86% 28.27%	1.50% ^{4,5} /2.51% ^{4,5}
Artisan International Fund (<i>Inception: 28-Dec-95</i>) MSCI EAFE Index	22.19% 23.57%	12.29% 8.10%	15.00% 11.77%	8.80% 6.93%	10.54% 5.39%	1.20%
Artisan International Small Cap Fund ¹ (<i>Inception: 21-Dec-01</i>) MSCI EAFE Small Cap Index	21.44% 29.08%	12.76% 9.84%	17.11% 15.21%	12.72% 8.73%	14.85% 11.63%	1.51%
Artisan Value Fund (<i>Inception: 27-Mar-06</i>) Russell 1000 [®] Value Index	23.87% 23.81%	15.21% 16.92%	17.55% 19.23%	-- --	7.36% 6.58%	1.04%
Artisan Mid Cap Value Fund ¹ (<i>Inception: 28-Mar-01</i>) Russell Midcap [®] Value Index	21.02% 27.76%	15.12% 17.56%	19.25% 22.97%	11.59% 10.66%	12.24% 10.94%	1.20%
Artisan Small Cap Value Fund ¹ (<i>Inception: 29-Sep-97</i>) Russell 2000 [®] Value Index	15.30% 22.54%	7.18% 14.65%	14.94% 19.88%	8.77% 8.24%	10.38% 8.72%	1.24%
Artisan Global Value Fund ¹ (<i>Inception: 10-Dec-07</i>) MSCI All Country World Index	23.13% 22.95%	16.58% 10.25%	19.24% 14.28%	-- --	9.06% 2.72%	1.38%
Artisan International Value Fund ¹ (<i>Inception: 23-Sep-02</i>) MSCI EAFE Value Index	27.64% 26.86%	14.61% 8.46%	18.13% 11.24%	11.60% 6.71%	15.89% 10.25%	1.18%
Artisan Emerging Markets Fund (<i>Inception: 2-Jun-08</i>) MSCI Emerging Markets Index	13.96% 14.31%	-4.25% -0.39%	5.35% 9.24%	-- --	-3.70% 0.15%	1.48% ⁴
Artisan High Income Fund (<i>Inception: 19-Mar-14</i>) BofA Merrill Lynch High Yield Master II	--- ---	--- ---	--- ---	--- ---	2.49% ³ 2.83% ³	1.25% ⁶ /1.38% ⁶

Source: Artisan Partners/MSCI/Russell/BofA. Past performance does not guarantee and is not a reliable indicator of future results. The investment return and principal value of an investment in an Artisan Fund will fluctuate, so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. High Income Fund's returns may vary greatly over short periods, and current performance may be materially lower or higher than the performance quoted. For Artisan Global Opportunities, International, International Small Cap, International Value, Global Value, Emerging Markets, Global Small Cap, Global Equity and High Income Funds the performance information shown does not reflect the deduction of a 2% redemption fee on shares held by an investor for 90 days or less and, if reflected, the fee would reduce the performance quoted. The Global Equity and Global Small Cap Funds' investments in initial public offerings (IPOs) made a material contribution to the Funds' performance. IPO investments are not an integral component of the Funds' investment process and may not be available in the future. Global Opportunities, Global Value, Emerging Markets, Global Small Cap, Global Equity and High Income Funds' performance information reflects Artisan Partners' agreement to limit the Funds' expenses and has had a material impact on the Funds' performance, which would have been lower in its absence. For current to most recent month-end performance information, call 800.399.1770.

¹Closed to most new investors. ²For the fiscal year ended 30 Sep 2013. ³Returns for periods less than one year are not annualized. ⁴Artisan Partners has contractually agreed to reimburse the Fund for any ordinary operating expenses in excess of 1.50% through 1 Feb 2015, at which time the contract may be renewed, revised or discontinued. ⁵For the Fund's inception through the fiscal year ended 30 Sep 2013. Expenses are estimated for the fiscal year. ⁶Expenses estimated for the current fiscal year because the fund is new. Artisan Partners has contractually agreed to reimburse the fund for its management fee and any other ordinary operating expenses in excess of 1.25% of its average daily net assets through 1 Apr 2015, at which time the contract may be renewed, revised or discontinued.

Carefully consider the Fund's investment objective, risks and charges and expenses. This and other important information is contained in the Fund's prospectus and summary prospectus, which can be obtained by calling 800.344.1770. Read carefully before investing.

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As of June 30, 2014, 8 of 12 Artisan Funds received a four- or five-star rating from Morningstar, based on Investor Shares. For each fund with at least a three-year history, Morningstar calculates a Morningstar Rating™ which is based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a fund's monthly performance, including the effects of sales charges, loads, and redemption fees, placing more emphasis on downward variations and rewarding consistent performance. The top 10% of funds in each category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. Ratings for other classes may vary. Morningstar data © 2014 Morningstar, Inc.; all rights reserved. Morningstar data contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. **Past performance is no guarantee of future results.**

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