

BUSINESS INSIDER

We interviewed Wall Street's 8 top-performing investors to get their secrets for success — and their best ideas for 2019

Akin Oyedele and Joe Ciolli Dec. 31, 2018, 8:28 AM



Samantha Lee/Business Insider

- **Business Insider spoke with the eight best-performing large-cap fund managers of the year, based on a trailing one-year basis through the end of October 2018.**
- **The fund managers outlined which thematic and single-stock strategies paid off for them this year, and laid out their top trades and ideas for 2019.**

(The following is the excerpt of the article featuring Chris Smith.)

Chris Smith, founding portfolio manager of the Artisan Thematic Fund (ARTTX)



Artisan Partners

Chris Smith oversees \$223 million as the founding portfolio manager of the Artisan Thematic Fund.

Smith works to identify industries undergoing multiyear inflection points, then makes investments based on those trends. Themes from the past year included data monetization, cash-flow inflection, and video games, among others.

He achieves diversification by digging in on each of these identified themes and making portfolio selections that offer earnings power on a two- to five-year basis. He doesn't own every company involved in a theme, just the very best, based on his models.

Smith also looks for stocks that carry high return on invested capital. He says that a company's ROIC has historically been the biggest driver of its multiple.

Lastly, it's important to mention that the Artisan Thematic Fund occasionally uses options to express investment ideas, a practice not regularly employed by fund managers. Smith says that

those derivative contracts are used for both directional bets and downside protection. He says hedges in the portfolio kept his fund from getting hurt as badly during market downturns this year.

1-year return: 34.31%

Biggest holdings (as of 9/30): Equinix (6.2%), IHS Markit (4.9%), CME Group (4.8%), SBA Communications (4.4%), Intercontinental Exchange (4.3%)

What worked in 2018:

"Our names are very diversified in terms of our performance this year. Harris Corp. was one of our top five biggest winners on the defense theme. We had a video-game theme that we expressed through Nintendo. We've since exited that position, but it was one of our top five winners.

"There's our cash-flow-inflection theme, for which Lamb Weston was our largest winner of the year. That was another unique idea.

"In software, we owned Salesforce, which we've exited, but it was one of our big winners of the year.

"Primary themes this year were: software, cash-flow inflection, data monetization, video games, and defense." One name from each of those groups were our top five winners.

What's ahead in 2019:

"Our overall view is that economic growth peaked this year and has started to slow, and that slowing is more pronounced globally. That should continue through next year. At some point, by probably the end of next year, we might enter a recession, but that's difficult to call.

"What that's leading us to do is build a portfolio built on higher-quality, stable businesses that work better for the later cycle. And we're focusing on themes that are less economically sensitive than may have been in the portfolio historically.

"One area we like are the tower companies in the US. We like SBA Communications (SBAC), American Tower (AMT), Crown Castle (CCI). They're very high-recurring, long-term revenue-stream companies, and they own all the wireless towers in the US.

"Life-science companies — which are exposed to accelerating secular tailwinds in biopharma and precision medicine — are not as economically sensitive either. They include companies like Thermo Fisher (TMO) and PerkinElmer (PKI) that we think are accelerating on the innovation scale over the next few years, and should be reasonably resilient in an economic slowdown."

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Clarifications: Nintendo was one of the top 5 contributors to return for the YTD period ended 30 Jun 2018. SBA Communications (SBAC), American Tower (AMT) and Crown Castle (CCI) own approximately 90% of the wireless towers in the US.

Investment Results (%) as of 31 Dec 2018	1 YR	ITD	Expense Ratio ¹ (% Gross/Net) Prospectus 30 Sep 2017
Artisan Thematic Fund			
Investor Class: ARTTX	11.23	24.46	1.63/1.57
S&P 500® Index	-4.38	5.34	

Source: Artisan Partners/S&P. Returns less than one year are not annualized. Class inception: Thematic Fund Investor (24 April 2017). ¹Reflects a contractual expense limitation agreement in effect through 31 Jan 2020. Includes estimated expenses for the current fiscal year, of which 0.07% are dividend and interest expenses relating to short sales. See prospectus for further details.

Past performance does not guarantee and is not a reliable indicator of future results. Investment returns and principal values 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 that shown. Call 800.399.1770 for current to most recent month-end performance. Performance may reflect agreements to limit a Fund's expenses, which would reduce performance if not in effect. The Thematic Fund's investments in initial public offerings (IPOs) made a material contribution to performance. IPO investments may contribute significantly to a small portfolio's return, an effect that will generally decrease as assets grow. IPO investments may be unavailable in the future.

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 visiting www.artisanfunds.com. Read carefully before investing.

A non-diversified portfolio may invest a larger portion of assets in securities of a smaller number of issuers and performance of a single issuer may affect overall portfolio performance greater than in a diversified portfolio. The portfolio's use of derivative instruments may create additional leverage and involve risks different from, or greater than, the risks associated with investing in more traditional investments. High portfolio turnover may adversely affect returns due to increased transaction costs and creation of additional tax consequences. Securities of small- and medium-sized companies tend to have a shorter history of operations, be more volatile and less liquid and may have underperformed securities of large companies during some periods. International investments involve special risks, including currency fluctuation, lower liquidity, different accounting methods and economic and political systems, and higher transaction costs. These risks typically are greater in emerging markets.

ARTTX ranks 4th out of 1,162 funds in the Morningstar US Fund Large Blend category on a total return basis for the 1 year period ended 31 Dec 2018. Rankings are historical and do not represent future results.

For the purpose of determining the Fund's holdings, securities of the same issuer are aggregated to determine the weight in the Fund. The discussion of portfolio holdings does not constitute a recommendation of any individual security. These holdings comprise the following percentages of the Artisan Thematic Fund's total net assets as of 30 Nov 2018: Harris Corp 2.5%, SBA Communications Corp 3.9%, Crown Castle International Corp 2.2%, Thermo Fisher Scientific Inc 5.3%, Visa Inc 4.7%, Splunk Inc 2.7%, American Tower Corp 1.0, PerkinElmer Inc 2.9%. Securities named but not listed here are not held in the Fund as of the date noted. The portfolio holdings mentioned are subject to change and the Fund disclaims any obligation to advise investors of such changes.

Top Contributors YTD as of 9/30/18 (Theme)	Bottom Contributors YTD as of 9/30/18 (Theme)
Salesforce.com Inc (Software)	NetEase Inc (Video Games)
Lamb Weston Holdings Inc (Cash Flow Inflection)	Magellan Midstream Partners (unassigned)
Visa Inc (Data Monetization)	TechniFMC PLC (unassigned)
Splunk Inc (Software)	LKQ Corp (Cash Flow Inflection)
Harris Corp (Defense)	CDK Global (Cash Flow Inflection)

Source: Artisan Partners/FactSet. Contribution to Return is calculated by FactSet by multiplying a security's weight in the portfolio by its in portfolio return for the period referenced and does not take into account expenses of the portfolio. Contribution to return is not exact, but should be considered an approximation. Theme categorizations are at the sole discretion of the team. Themes and constituents are as of the date indicated and subject to change without notice.

Return on Invested Capital (ROIC) is a measure of how well a company generates cash flow relative to capital invested in the business. S&P 500® Index measures the performance of 500 US companies focused on the large-cap sector of the market. The index(es) are unmanaged; include net reinvested dividends; do not reflect fees or expenses; and are not available for direct investment.

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