

Artisan's Strong Investment Culture Trumps Fee Issues

Fund Spy | 03-09-11 | By Greg Carlson

Artisan Partners' structure is unusual and is a key to its corporate culture. As its name implies, the firm is a partnership, which is primarily composed of portfolio managers spread across the United States (as well as one manager in London). The company was founded in 1995 and has maintained a boutique nature all along; it has started new funds only after identifying skilled managers to run them and has kept its lineup relatively small—offering 12 funds in total. Managers join as partners and Artisan gives them the freedom to build their own investment teams as they see fit. Indeed, the team that runs the three domestic-value funds has five managers and analysts, while the domestic-growth team (which also manages three funds) has 12 members. Artisan also gives the managers a great deal of flexibility as to where they want to work. For example, the firm is based in Milwaukee, Wis., and the domestic-growth team is located there. Meanwhile, the domestic-value team is based in Atlanta, Ga. The two teams that manage its diversified foreign- and world-stock funds are located in San Francisco, Calif. (with a small office in London, too), and the emerging-markets team works out of New York.

Artisan has also tried to make managers' jobs easier (and protect fundholders' interests) by closing funds when capacity and liquidity issues loom on the horizon. Five of the 12 funds (International Small Cap (ARTJX), Mid Cap (ARTMX), Mid Cap Value (ARTQX), Small Cap Value (ARTVX) and International Value (ARTKX)) are closed to new investors. International Value closed March 9, 2011, for the second time, because cash was pouring in and the managers run a concentrated, all-cap strategy. Thus, five of the seven Artisan funds with five-year track records have been closed to preserve managers' flexibility. Mid Cap arguably stayed open a bit too long and wasn't closed tightly enough; the number of holdings grew substantially and performance leveled off for a while (though management has since righted the ship). But the other closings have been handled quite well.

The Managers Have Delivered

The partnership structure and the freedom Artisan gives its managers have enabled the firm to attract talented, proven stock-pickers. For example, Mark Yockey amassed a strong five-year record at Waddell &

Reed International Growth (UNCGX) before joining Artisan to start its second fund, Artisan International (ARTIX), in 1995. Scott Satterwhite posted fine returns in a four-year stint at the former Wachovia Special Values (now a Wells Fargo Advantage fund), then founded Artisan Small Cap Value in 1997. He also brought with him key analyst Jim Keiffer, who has since become the comanager of that fund and the team's other two charges..

Artisan's approach has led to excellent long-term results. Of the firm's seven funds with five-year records, all but one land in the top half of their categories and four are in the top 15%. Furthermore, over the past decade, the four Artisan funds with track records are all in the top 55% of their categories and two are in the top 30% through the end of February 2011.

The funds also boast a great deal of continuity in terms of personnel (and as a result, strategy). True, there have been a half dozen departures due to retirement or for personal reasons during the firm's 15-year history. But the other dozen portfolio managers remain on board, and 10 of the 12 funds retain their original lead managers.

Artisan has demonstrated that investment merit and good stewardship have trumped marketing and asset-gathering concerns at the firm—not just by closing its funds, but in the way it's managed its fund lineup. No trendy funds here; all the offerings have fairly broad mandates, and have been launched only when Artisan has found an appropriate manager or team it wants to bring into the fold. True, the one fund that might be considered specialized, Artisan Emerging Markets (ARTEX), was launched in 2006 when those markets were red-hot. But the firm rolled out only an institutional share class at that time precisely because it didn't want retail investors to get burned. Another share class was launched in 2008, but it's sold through advisors only.

Artisan's fund lineup has evolved over time, and the firm's philosophy regarding its lineup has changed somewhat, too. In its early years, Artisan positioned itself in part as a fund shop that invested primarily in arguably less-efficient corners of the market where it believed good

managers could add more value, such as U.S. small- and mid-cap stocks and foreign stocks. However, four of its five newest funds (all launched within the past five years)—Artisan Global Value (ARTGX), Artisan Value (ARTLX), Artisan Growth Opportunities (ARTRX), and Artisan Global Equity (ARTHX)—land in categories in which there’s more competition (large-growth, large-value, and world-stock) and perhaps fewer inefficiencies to be exploited. Artisan executives contend that these newer funds are nevertheless distinctive within their categories. There’s a lot of merit to their argument. For example, Global Value, Growth Opportunities, and Value sport concentrated portfolios (each recently held fewer than 45 stocks), and the managers have a lot of flexibility to own smaller firms—each of the three above-mentioned funds’ average market capitalizations are well below their respective category norms. Finally, while the funds’ records are on the short side (two of them are less than three years old), they’re all off to strong starts, and the correlations of the funds’ returns to their benchmarks are well below-average compared with peers’.

Fees Are Too High

The one area in which the firm could be considered less than shareholder friendly is fees. All but two of the funds sport an expense ratio that is above the norm for no-load funds in their respective categories—even the firm’s largest funds. And one of the exceptions, Artisan International Value, would be pricier than average if it moved up to one of the foreign large-cap categories from foreign small/mid-value. (Its all-cap portfolio has lately ridden the line between mid-cap and large cap in the Morningstar Style Box.) That said, the only Artisan funds in which the expense ratios are substantially higher than average are the smaller, newer ones such as Artisan Growth Opportunities. Most of the other funds’ price tags are within 10 basis points of the category norm, and the funds would likely be cheaper if they were allowed to grow larger instead of closing. Artisan argues that its fee levels allow the firm to better compensate and thus retain its talented managers and analysts. But investors would benefit if the firm shared economies of scale to a greater degree.

It’s possible that Artisan’s partnership structure has played a part in the funds’ above-average fees. Portfolio managers who are partners have an incentive to boost the firm’s profitability. Yet, other aspects of the firm’s culture and behavior—such as its willingness to close funds and the fact that it hasn’t offered hot products that could sell quickly—demonstrates that its partners have been responsible stewards of shareholders’ capital. Furthermore, most of the managers have invested at least \$1 million in the funds they manage (the top end

of the disclosure range required by the SEC), which helps align their interests with those of fundholders.

Cost concerns aside, Artisan deserves a great deal of credit for maintaining an investment-focused culture and generally looking out for fundholders’ interests.

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Fund/Index	AVERAGE ANNUAL TOTAL RETURNS (AS OF 31-Dec-10)						EXPENSE RATIO ⁴	
	QTD ¹	1 Yr	3 Yr	5 Yr	10 Yr	Since Inception	Subsidized	Unsubsidized
Artisan Emerging Markets Fund - Advisor Shares (inception 02-Jun-08)	7.36%	18.14%	—	—	—	-1.56%	1.50% ⁵	1.73% ⁵
MSCI Emerging Markets Index ^{5M}	7.34	18.88	—	—	—	0.46		
Artisan Emerging Markets Fund - Linked Institutional and Advisor Shares ²	—	—	-0.24%	—	—	13.27	—	—
MSCI Emerging Markets Index ^{5M}	—	—	-0.32	—	—	14.17		
Artisan Global Equity Fund (inception 29-Mar-10)	11.80	—	—	—	—	14.37 ¹	1.50% ⁵	3.66% ⁵
MSCI All Country World Index ^{5M}	8.73	—	—	—	—	9.35 ¹		
Artisan Global Value Fund (inception 10-Dec-07)	9.23	16.18	3.11	—	—	1.78	1.50% ⁶	1.96% ⁶
MSCI All Country World Index ^{5M}	8.73	12.67	-4.29	—	—	-5.17		
Artisan Growth Opportunities Fund (inception 22-Sep-08)	12.83	28.23	—	—	—	9.92	1.50% ⁶	1.54% ⁶
MSCI All Country World Index ^{5M}	8.73	12.67	—	—	—	4.29		
Artisan International Fund (inception 28-Dec-95)	6.37	5.91	-7.75	3.37%	3.60%	10.11	—	1.23%
MSCI EAFE [®] Index	6.61	7.75	-7.02	2.46	3.50	4.70		
Artisan International Small Cap Fund (inception 21-Dec-01) ³	6.83	14.38	-4.19	7.99	—	15.81	—	1.50%
MSCI EAFE [®] Small Cap Index	11.80	22.04	-1.72	2.81	—	12.44		
Artisan International Value Fund (inception 23-Sep-02) ³	11.02	18.90	3.52	8.18	—	16.67	—	1.22% ⁷
MSCI EAFE [®] Index	6.61	7.75	-7.02	2.46	—	10.49		
Artisan Mid Cap Fund (inception 27-Jun-97) ³	13.81	31.57	3.37	7.98	5.93	14.33	—	1.29% ⁷
Russell Midcap [®] Index	13.07	25.48	1.05	4.66	6.54	8.55		
Artisan Mid Cap Value Fund (inception 28-Mar-01) ³	9.03	14.37	4.88	6.01	—	10.90	—	1.21%
Russell Midcap [®] Value Index	12.24	24.75	1.01	4.08	—	8.84		
Artisan Small Cap Fund (inception 28-Mar-95)	14.24	20.51	-0.87	1.47	4.90	7.20	—	1.66% ⁸
Russell 2000 [®] Index	16.25	26.85	2.22	4.47	6.33	8.68		
Artisan Small Cap Value Fund (inception 29-Sep-97) ³	13.57	17.69	7.93	7.08	11.34	10.95	—	1.22%
Russell 2000 [®] Value Index	15.36	24.50	2.19	3.52	8.42	7.46		
Artisan Value Fund (inception 27-Mar-06)	8.08	11.32	-1.93	—	—	1.79	—	1.18% ⁸
Russell 1000 [®] Index	11.19	16.10	-2.37	—	—	1.71		

Source: Artisan Partners/MSCI/Russell.

The performance quoted represents past performance, which does not guarantee 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. Artisan Global Equity Fund's return may vary greatly over short time periods, and current performance may be materially lower or higher than the performance data quoted. For Artisan Global Equity, Artisan Global Value, Artisan International, Artisan International Small Cap and Artisan International Value 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. Artisan Global Equity Fund's investments in initial public offerings (IPOs) made a material contribution to the Fund's performance. IPO investments are not an integral component of the Fund's investment process and may not be available in the future. Artisan Global Equity, Artisan Global Value and Artisan Growth Opportunities Funds' performance information reflects Artisan Partners' agreement to limit the Fund's expenses and has had a material impact on the Fund's performance, which would have been lower in its absence. For current to most recent month-end performance information, visit www.artisanfunds.com or call 800.344.1770.

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underperform other asset types during a given period. Artisan Global Value, Artisan International Value, Artisan Mid Cap Value, Artisan Value and Artisan Small Cap Value Funds invest in value securities, which may underperform other asset types during a given period. These risks are discussed in the prospectus.

¹Not Annualized. ²Performance data shown relates to the Advisor Shares from 6/2/08 forward and for Institutional Shares prior to 6/2/08. Performance of the Institutional shares does not reflect higher expenses associated with the Advisor Shares, and if reflected, would reduce the performance quoted. Institutional and Advisor shares are available with limited access. ³Closed to most new investors. For new account eligibility criteria, please refer to the "Who is Eligible to Invest in a Closed Artisan Fund?" section of the prospectus. ⁴For the fiscal year ended 30-Sep-10. ⁵Artisan Emerging Markets Fund's gross expense ratio is 1.73%. The Fund's net expense ratio is 1.50%. From the Fund's inception until 1-Dec-09, Artisan Partners voluntarily limited the Fund's expenses, which could have been terminated at any time. As of 1-Dec-09, Artisan Partners has been contractually agreeing on an annual basis to reimburse the Fund for any ordinary operating expenses in excess of 1.50% of its average daily net assets. The current contract continues through 1-Feb-12, at which time Artisan Partners will determine whether to renew, revise or discontinue it. Global Equity Fund's gross expense ratio is 3.66%. The Fund's net expense ratio is 1.50%. Since the Fund's inception, Artisan Partners has contractually agreed to reimburse the Fund for any ordinary operating expenses in excess of 1.50% of its average daily net assets. The current contract continues through 1-Feb-12, at which time Artisan Partners will determine whether to renew, revise or discontinue it. ⁶Global Value Fund's gross expense ratio is 1.96%. The Fund's net expense ratio is 1.50%. Growth Opportunities Fund's gross expense ratio is 1.54%. The Fund's net expense ratio is 1.50%. From both Funds' inception until 1-Dec-09, Artisan Partners voluntarily limited the Fund's expenses, which could have been terminated at any time. As of 1-Dec-09, Artisan Partners has been contractually agreeing on an annual basis to reimburse the Funds for any ordinary operating expenses in excess of 1.50% of its average daily net assets. The current contract continues through 1-Feb-12, at which time Artisan Partners will determine whether to renew, revise or discontinue it. ⁷The Fund's direct operating expenses are 1.21% for International Value Fund, 1.23% for Mid Cap Fund and 1.31% for Small Cap Fund, which is reflected in the Funds' "Financial Highlights" in the statutory prospectus and financial statements. The expense ratio noted above includes "Acquired Fund Fees and Expenses," which are indirect expenses the Fund may incur from investing in an investment company (acquired fund); such indirect expenses are not paid from the fund's assets but are reflected in the return realized by the fund on its investment in the acquired funds. ⁸The Fund's operating expenses have been restated to reflect a reduction in management fees, effective as of 1-Dec-10, as if such reduction had been in effect during the fiscal year ended 30-Sep-10. The information has been restated to better reflect anticipated expenses of the Fund.

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DESCRIPTION OF INDICES: All indices are unmanaged, market weighted indices and their returns include net reinvested dividends. Unlike the Funds' returns, the returns of all of the indices do not reflect the payment of sales commissions or other expenses incurred in the purchase or sale of the securities included in the indices. An investment cannot be made directly into an index. MSCI ACWI (All Country World) IndexSM is an index designed to measure equity market performance in the global developed and emerging markets. The MSCI EAFE[®] Index is an index of companies in developed markets, excluding the U.S. and Canada. The MSCI EAFE[®] Small Cap Index is an index of small companies in developed markets, excluding the U.S. and Canada. The Russell 1000[®] Index is an index of about 1,000 large U.S. companies. The Russell 2000[®] Index is an index of about 2,000 small U.S. companies. The Russell 2000[®] Value Index is an index of those companies included in the Russell 2000[®] Index with lower price-to-book ratios and lower forecasted growth values. The Russell Midcap[®] Index is an index of about 800 medium-sized U.S. companies. The Russell Midcap[®] Value Index is an index of those companies included in the Russell Midcap[®] Index with lower price-to-book and lower forecasted growth values. The MSCI Emerging Markets IndexSM is an index of companies in emerging markets.

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