

THE WALL STREET TRANSCRIPT

Connecting Market Leaders with Investors

Pursuing Global Growth Equities



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finance from the University of Minnesota-Minneapolis, where he was a three-time Academic All-American.

SECTOR — GENERAL INVESTING

TWST: Could you please begin with an overview of Artisan Global Opportunities and the Growth Team, with a view to its underlying investment philosophy?

Mr. Hamel: These comments relate to all of the portfolios that my team, the Artisan Partners Growth Team, is responsible for, which are the small-cap growth, midcap growth and the global opportunities portfolios. From a high level, we believe stocks follow profits. We consider ourselves profit-cycle hunters. When we think about investing our investors' dollars, we want to expose them to accelerating profit cycles by finding growth wherever it occurs.

That said, we also recognize that we operate in the public equities marketplace. We don't have access to all of the information — there is an inherent amount of risk in public equity investments. So our philosophy is built around exposure to growth, but with a keen eye on risk management.

TWST: Can we take a closer look specifically at Global Opportunities, with a view to its structure?

Mr. Hamel: The Global Opportunities portfolio has all of the same characteristics as the other two portfolios we manage with a few exceptions on the construction side. First, it's a focused, concentrated equity portfolio; the top 20 securities in the portfolio represent approximately 65% of the capital in most periods, but generally between 60% and 70%. In terms of the number of securities, we generally have a

range between 30 and 50. Second, we view the opportunity set as truly global. We will go wherever growth occurs globally. The portfolio today is roughly 50/50 with respect to inside the U.S. and outside the U.S., as it has been over the last handful of years.

Third, it is truly an all-cap portfolio. We've gone up and down the market cap structure to find opportunities. So there are a handful of securities in the portfolio that are below a couple of billion — truly small cap — as well as a handful of true megacaps.

TWST: I see that Artisan's Growth Team has a "garden," "crop" and "harvest" kind of nomenclature for holdings. How does this work?

Mr. Hamel: I come from a farming background, so when we were designing the Growth Team's overarching philosophy and approach to security selection some 17 years ago, that seemed natural to us. The way to think about "garden," "crop" and "harvest" is as a view into how we allocate capital in the portfolios.

A "garden" holding is one we believe to be a very high-quality business, a franchise. We believe we've done all of the work on valuation, and it appears reasonable to us within the constructs of how we view valuation. We also believe we know what the catalyst is, either internally or externally, for profit acceleration in the not-too-distant future. However, we believe we may be early — our conviction perhaps isn't what it would be with a more seasoned investment campaign. We may be anticipating profit acceleration; it just may not be obvious to all as of yet.

With an eye toward that risk mitigation we talked about earlier — we are putting something in the ground as a seed — it's small. In the context of the Global Opportunities portfolio, a “garden” position size is between about 50 basis points and 125 basis points.

Then over time we watch to see if the investment case we had initially identified begins to mature. If the reason we initially invested begins to bear fruit, and it becomes more obvious, not only to us, but to the external world, we begin to “supersize” the position, as I call it. Make it a true “crop” — a position size between about 125 basis points and up to 10%. While 10% would be a rare case, position sizes between 300 basis points and 700 basis points are reasonably common. And again, think of those “crop” positions as the top 20 positions, give or take, generally representing between 60% and 70% of portfolio capital. It's where our real conviction in the portfolio is.

Then we have the “harvest” of the portfolio, which, in the Global Opportunities portfolio, tends to be fairly few securities, perhaps five to seven or eight positions at any given time. These are position sizes we are beginning to reduce. We may be selling because of fundamentals; the reason we originally invested is beginning to mature and the profits are no longer accelerating. Or we may harvest because we're anticipating a deceleration in the future, or perhaps we are actually already seeing it. Or lastly, we may sell purely because of valuation.

Again, going to back to that overarching philosophy that we're in the public market so we have an eye toward risk mitigation, we will sell securities solely for unreasonable valuation. That could be an element that would put a security into the harvest of the portfolio.

TWST: Can you give some specific examples of a “garden” holding?

Mr. Hamel: An example would be the Mexican company **Infraestructura Energetica Nova** (IENOVA.MX), or **IEnova**, which is the largest private operator of natural gas pipelines in Mexico. It's over 75% owned by a public company in the U.S. called **Sempra Energy**

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(SRE). Its only peer in Mexico is **Pemex**, the state-owned entity that controls all of the energy assets in Mexico.

What's unique about **IEnova** is, as a private company, it has a very strong relationship with **Pemex** that's developed over time. Because **Pemex** has continuously been constrained for cash and the ability to deploy capital into big infrastructure projects, it has looked toward a private player to provide some of that capital.

So **IEnova** has effectively been a preferred partner with **Pemex** over time. That's the franchise value.

The valuation work that we've done on it looks interesting and reasonable to us at this time. But the catalyst for putting it into the “garden” in the back half of 2013 was a material regulation change in Mexico. Mexico recently adopted laws to open up its energy industry to allow private players to invest, not only in the drilling infrastructure, but also the power, pipes and distribution infrastructure within Mexico. We think over the course of the next three years, the number of projects awarded to private, nonstate owned entities will multiply, and we think **IEnova** is in a really good position.

TWST: And what would be an example of a “crop” holding?

Mr. Hamel: A company like **IHS** (IHS), which is a long-term “crop” holding for us. I think of **IHS** as the **Bloomberg**-like data set provider for the energy industry. There are only a few data service providers of material size in the financial industry; **Bloomberg** is arguably the leader, and perhaps **FactSet** (FDS). But in the energy industry, that repository of information that's mission-critical — everything from the historical list of wells driven to productivity to who owns land, to what have the transaction values been in M&A through time — has been aggregated over a long period by **IHS**.

IHS also has a similar model for environmental and supply chain management. For example, if you are a large retailer and you need to know the raw material and sourcing of

particular products that you're selling, either from a regulatory, compliance or environmental standpoint, **IHS** has a searchable data set giving you access to that information. That's the franchise value of **IHS**, and it's unmatched in our view. However, we believe the franchise value isn't yet well-recognized globally; it operates underneath the radar, which means it's very reasonably priced even today, in our view, particularly given the fact that about 75% of its revenues recur every year with a very high retention rate. We like those very visible earnings and revenue streams, and we believe the market should be willing to put a higher multiple on the visibility and predictability through time.

And after a period of some 18 months of reinvesting back into the business to make its infrastructure more flexible and leverageable, we think **IHS** is on the cusp of a topline acceleration from about 4% to 5% organic growth most recently, to perhaps toward 7% to 8% organically, with some margin expansion to go along with it. That's that potential inflection point we really like and get excited about with some of our big positions.

Highlights

*James D. Hamel discusses his team's investment philosophy, which is built around exposure to growth globally but with a keen eye on risk management. Today, Mr. Hamel's Global Opportunities portfolio is roughly 50/50 domestic and international. He discusses how his team separates holdings into Garden, Crop and Harvest themes based on stock performance, and gives an example of each type of holding. The secular themes Mr. Hamel is currently focused on are biopharmaceutical innovation, Internet mobility and the second coming of the industrial revolution. Companies discussed: **IENOVA** (IENOVA.MX); **Sempra Energy** (SRE); **IHS** (IHS); **FactSet Research Systems** (FDS); **eBay** (EBAY); **Google** (GOOG); **Apple** (AAPL) and **Biogen Idec** (BIIB).*

TWST: And what have you been “harvesting” lately?

Mr. Hamel: eBay has been a position that we’ve been slowly harvesting over the last few quarters. One of the primary reasons we were initially interested in eBay (EBAY) was because of PayPal. However, we believe PayPal’s profit cycle is much more mature now. It’s still growing at a nice rate, but PayPal faces an enormous amount of new competition from what we believe will be an emerging trend in the not-too-distant future — virtual payment systems — products like Square or Google (GOOG) Wallet. Perhaps even Apple (AAPL) will have a payment scheme. The competition for virtual wallets that are secure and more easily deployed is creating a competitive headwind for PayPal.

1-Year Daily Chart of IHS



Chart provided by www.BigCharts.com

“As growth investors, we are putting a multiple on future cash flow streams. And we believe that multiple is certainly correlated with the predictability of those future cash flows over time.”

The valuation is still very reasonable, so we haven’t completely eliminated eBay from the portfolio. But we believe it just doesn’t have the acceleration that we saw when it we added it as a “crop” holding.

TWST: How closely does your sell discipline relate to the “harvest” philosophy?

Mr. Hamel: Any security we are selling we would characterize as a “harvest.” Some we harvest faster than others. For example, if fundamentals have deteriorated, we might harvest faster or even do an outright sale.

However, what happens a lot is stocks get temporarily overvalued. Then we might reduce them — temporarily harvest them — to mitigate valuation risk. We may not completely eliminate it from the portfolio, but we aim to reduce the position size. And as the market ebbs and flows, there may be opportunities in the future to accumulate the stock at lower prices, if the profits are still accelerating as we had hoped.

TWST: You commented on franchise characteristics as important to your holdings. How do you define a company with the requisite franchise characteristics?

Mr. Hamel: Think of it as Porter’s forces of competition. We’re looking for companies that have leading market share, those companies that are number one or number two or generally a leader in whatever they do. But also, if it’s a manufacturing-based business, is it a low-cost producer, even at the low part of the market cycle? If it’s a

technology company or a med devices company or a biotech, is there some intellectual property patent, something that protects the firm from forces of competition? If it’s a consumer company, is there iconic brand recognition; does the brand matter and resonate with the consumer?

One or more of those characteristics is what we look for in businesses. We don’t need all of them, but we do need one or two. If a firm has all four of them, that’s probably a regulated monopoly, and therefore there’s no upside. But having a couple of those characteristics is pretty important because, as growth investors, we are putting a multiple on future cash flow streams. And we believe that multiple is certainly correlated with the predictability of those future cash flows over time.

TWST: I see in the biotech sector you hold Biogen. What attracted you to that stock?

Mr. Hamel: We have a health care investor on our team that I think is second to none, Matt Kamm, as well as Martin Jochmann, who works with him on the health care side. They have looked at health care for a long time. One of the characteristics of biotech investing we consider is what I’ll call “binary outcome” risk. There are few things that can set you back faster — in fact, that can permanently destroy capital in the biotech sector — than a company that has a single drug that is not yet approved, and then it doesn’t get approved. That’s a recipe for a company vanishing to zero. This is particularly topical as we have seen some 50 or so biotech companies go public over the last few quarters. But those newly public firms may not be necessarily interesting for us, because we’re looking for companies that have some predictive franchise value.

1-Year Daily Chart of Biogen Idec



Chart provided by www.BigCharts.com

Biogen (BIIB) has those franchise characteristics. It is the global leader in multiple sclerosis drugs, making it, in our view, an interesting franchise with an understandable and a defensible barrier. But we believe the catalyst to grow from there is the R&D pipeline that continues to manufacture opportunities.

We’re very excited about a new drug from **Biogen** recently approved and now in commercialization called Tecfidera. Matt and Martin believe it could do in excess of \$1 billion in sales in its first

year of commercialization, perhaps on its way to \$5 billion. It's a drug that leverages **Biogen's** MS expertise, and it's the first major MS drug that's in pill form as opposed to injectable, which means it's particularly interesting for patients who don't have to undergo injections on a regular basis.

We believe Tecfidera is at the inflection point of accelerating right now. But there is also a pipeline of some six drugs, fairly early still in the testing process, that we're monitoring very carefully for the potential of being what we would call a "big drug" — a billion-dollar-plus drug. For example, there is a drug in the pipeline that would address Alzheimer's that we haven't placed any value on yet. But if **Biogen** were successful in commercializing it in the future, it could be a \$7 billion, \$8 billion, \$9 billion, \$10 billion drug.

So **Biogen** is a strong franchise, still reasonably valued in our opinion, with a great pipeline. We believe we have an opportunity for this company to be much, much bigger in the future based on its pipeline. And if one or two drugs fails to commercialize, which will inevitably happen, we believe the franchise is not permanently impaired, because it has a strong base of approved drugs behind it.

"We look for strong franchises selling at attractive, understandable valuations on the cusp of what we believe is a profit-acceleration cycle."

TWST: Is that a "garden" company or a "crop" holding?

Mr. Hamel: It is a "crop" holding. The "garden" thesis was Tecfidera before it was approved. Once Tecfidera had clinical data that strongly supported an eventual approval and then began its commercial ramp, we took **Biogen** to a "crop" position fairly quickly.

TWST: You have commented on secular themes that are fertile ground for some of the more innovative growth companies. What is your current view of secular themes to support innovative growth stories going forward?

Mr. Hamel: Well, there are a few trends that we have been focused on over the last few years, for example biopharmaceutical innovation, which hits on **Biogen**. We believe accelerating gains in understanding of the human genome will continue fueling novel new therapies for some time, yielding more targeted, more effective and less toxic cures for cancer, cardiovascular, allergic, metabolic and many more diseases. Beyond the drugs, we believe this trend, driven by better understanding patients at the genetic level, will also change how health care gets delivered, making it more personal, more effective. There's a huge opportunity, in our view, for accelerating profits here.

Another trend is the transition to Internet mobility. We believe we are in midst a wholesale infrastructure change as the proliferation of smart mobile devices — phones, tablets — puts increasingly powerful and increasingly cheap computing into the hands of an ever-growing swath of people, including the rising middle class in emerging markets. That shift is reordering a number of businesses such as e-commerce, advertising, media. But it is also impacting business software as firms increasingly adapt to the flexibility and cost-effectiveness of operating from software in the cloud.

We have written some pieces expanding on our thoughts on these two trends, which are available through our website.

Another trend that certainly permeates the portfolios is what I

would call "man versus machine" — the second coming of the industrial revolution. Wage inflation in Asia, which has far exceeded that in much of the developed world in recent years, has sapped some of the benefit of outsourcing manufacturing operations there. So we believe we are coming into an age where machine automation, robotics, computerized systems and world-class quality standards are becoming much more important not just in the developed world, but in the emerging markets as well. Robotics companies and vision systems and quality assurance systems have what we think is a multiyear tailwind.

TWST: Beyond the domestic stock market, where are you looking to capture performance in 2014? Any countries, markets, look strong to you?

Mr. Hamel: I'll caveat that with: We are absolutely bottom-up, fundamental investors. We think good stock pickers can do well despite the macro environment. We look for strong franchises selling at attractive, understandable valuations on the cusp of what we believe is a profit-acceleration cycle. That is our first concern; we do not want to be constrained by rigid adherence to a benchmark or a top-down macro view.

That said, there certainly are geographic regions that seem to have fewer headwinds than others currently. In Europe, we continue to find a handful of interesting businesses that fit our criteria, and that region is perhaps through the worst of its economic malaise. Spain, as an example, is finally recovering. The U.K. seems to be chugging along quite nicely. France and Italy seem to have their share of issues.

Much has been written about China's slowing. But we view this differently, perhaps, than many. In our view, the slowing in China is because of a handoff from production-led, export-driven growth to internal consumption. So there are a number of businesses in China that are consumer-facing and consumption-oriented that we are particularly excited about. Our China exposure for that reason has actually been growing over the last nine to 12 months or so.

Some of the other emerging markets are still in pretty rough shape. Brazil has been very difficult from an economic standpoint, and there are a couple of businesses there that we have in the Global Opportunities portfolio. But they're early Garden positions, and they're certainly not seeing much profit acceleration at this point in time. Mexico seems to be in a bit better shape.

TWST: During your career, what is the most valuable or memorable investment advice you have ever received?

Mr. Hamel: There is certainly a saying we all fundamentally believe in, and that is stocks follow profits. In any short period of time, you may not be rewarded for profit acceleration, but over the long term we believe stocks and stock values absolutely follow profits.

TWST: What does it take to be a top-performing fund manager?

Mr. Hamel: There are a few characteristics that as a team we absolutely have to have, and have to be thoughtful about over a long period of time. First, you must have a philosophy and process that underpins everything you do. Everybody on the team needs to understand

it, and you have to truly believe in it, particularly when times get tough — don't deviate from a process that's proven to be successful.

Second, focus. As individuals and as a team, we can only do a handful of things really well. Do them and don't worry about the rest. It's really much more of a process of saying "no" a lot and excluding a lot. Say "yes" to only a handful of things.

Third, alignment with our investors. Having the right investor on the right terms and making sure that they understand what you do is critically important to being a long-time equity investor. Ensure your clients are measuring you over the same period of time that you're measuring your investments — generally a rolling three- to five-year period, or a rolling business cycle. Make sure clients understand that so everyone has staying power.

Fourth, the quality of the talent on the team. You have to have a willingness to continue to build and develop a team with people who are smarter than you are, and I think we've been successful in doing that. Related to that, I would say you need an incentive system for your team that's transparent and clear so that when the client succeeds, the team succeeds, and you need an incentive system that recognizes that on an individual level.

TWST: Is there anything else that you would like to add; anything more you'd like investors to know about the fund?

Mr. Hamel: Specific to the Global Opportunities portfolio, I think it's important to know that internally, we view this as our most flexible, highest-conviction portfolio that we manage. The aim is to have internal alpha-generating capability. We can be very concentrated; it's our "best ideas" portfolio. Given the concentrated nature of the portfolio coupled with our being flexible and benchmark-agnostic, we believe our research process helps our stock picking shine over long periods, while recognizing at times we may be out of step with the markets.

TWST: Thank you. (VSB)

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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.

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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. 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. Growth securities may underperform other asset types during a given period.

For the purpose of determining the Fund's holdings, securities of the same issuer are aggregated to determine the weight in the Funds. The holdings mentioned comprise the following percentages of the Artisan Global Opportunities Fund total net assets as of 31 Dec 2013: Google Inc 6.7%, IHS Inc 4.3%, eBay Inc 3.0%, Biogen Idec Inc 2.8%, Infraestructura Energetica Nova SAB de CV 0.8%. Securities named in the Commentary, but not listed here are not held in the Fund as of the date of this report. Portfolio holdings are subject to change without notice and are not intended as recommendations of individual securities.

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