Artisan Value Equity Strategy

QUARTERLY
Commentary

As of 31 March 2024

Investment Process

We seek to invest in companies that are undervalued, in solid financial condition and have attractive business economics. We believe that companies with these characteristics are less likely to experience eroding values over the long term.

Attractive Valuation

We value a business using what we believe are reasonable expectations for the long-term earnings power and capitalization rates of that business. This results in a range of values for the company that we believe would be reasonable. We generally will purchase a security if the stock price falls below or toward the lower end of that range.

Sound Financial Condition

We prefer companies with an acceptable level of debt and positive cash flow. At a minimum, we seek to avoid companies that have so much debt that management may be unable to make decisions that would be in the best interest of the companies' shareholders.

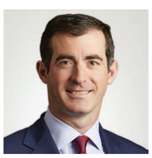
Attractive Business Economics

We favor cash-producing businesses that we believe are capable of earning acceptable returns on capital over the company's business cycle.

Team Overview

Everyone on the team functions as a generalist with respect to investment research and the entire team works together on considering potential investments.

Portfolio Management


Thomas A. Reynolds IV
Portfolio Manager


Daniel L. Kane, CFA
Portfolio Manager


Craig Inman, CFA
Portfolio Manager

Investment Results (% USD)

As of 31 March 2024	QTD	YTD	Average Annual Total Returns 1 Yr	3 Yr	5 Yr	10 Yr	Inception[1]
Composite — Gross	**8.88**	**8.88**	**26.54**	**12.01**	**14.90**	**10.89**	**9.78**
Composite — Net	**8.70**	**8.70**	**25.69**	**11.25**	**14.12**	**10.14**	**8.97**
Russell 1000® Value Index	8.99	8.99	20.27	8.10	10.30	9.00	8.05
Russell 1000® Index	10.30	10.30	29.87	10.44	14.74	12.67	10.39

Annual Returns (% USD) Trailing 12 months ended 31 March

	2020	2021	2022	2023	2024
Composite — Net	**-17.84**	**71.15**	**10.86**	**-1.14**	**25.69**

Source: Artisan Partners/Russell. Returns for periods less than one year are not annualized. [1]Composite inception: 1 July 2005.

Past performance does not guarantee and is not a reliable indicator of future results. Current performance may be lower or higher than the performance shown. Composite performance has been presented in both gross and net of investment management fees.

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. These risks, among others, are further described near the back of this document, which should be read in conjunction with this material.

Investing Environment

US equity markets reached new all-time highs in Q1 supported by a resilient US economy, a general trend of disinflation and an acceleration in corporate profits growth. Given mostly benign economic data offering little indication that a recession is near, interest rate markets pared back the number of expected Federal Reserve rate cuts in 2024. The Russell 1000® Value Index rose 8.99%, continuing the strong rally that began in late October of last year. Broad-based strength across sectors and leadership from cyclicals—industrials, energy and financials—may suggest investors' focus has shifted toward drivers of revenue growth rather than a potential decrease in the cost of capital, which has been a major driver of stocks, especially high-growth technology issues. The three previously noted cyclical sectors led the way in Q1 with double-digit gains, while the real estate sector was weakest, finishing slightly down. All other sectors returned between 5%–8%.

The market's move higher has been an unusually smooth one. In Q1, the Russell 1000® Value Index experienced only two down days of one percent or greater. Over the five-year period from 2019 to 2023, the average quarter had eight such days. There are plenty of risks that could upset the apple cart, whether geopolitical or macroeconomic. The ongoing conflicts in the Middle East and Ukraine continue to rage, and inflation—though trending lower—remains above the Federal Reserve's 2% target. Markets during the first three months of the year showed relatively little concern, however. Earnings—the bedrock of business values—are growing soundly once again, and the recession that many predicted would have started by now has yet to emerge. However, volatility has picked up in April as we write this letter.

Performance Discussion

The portfolio performed roughly in line with the Russell 1000® Value Index. Underperformance in the consumer staples, energy and financials sectors was counterbalanced by favorable stock picking in the communication services, health care and industrials sectors. A lack of real estate investments was also beneficial.

Our top and bottom individual contributors were each found in the communication service sector: Meta Platforms was up 37%, while Warner Bros Discovery (WBD) was down -23%. Shares of social technology company Meta Platforms soared after the company reported blowout earnings and announced its first-ever dividend payment. Net income more than tripled year over year as revenue growth accelerated to its fastest pace since 2021 on improving engagement across its social media platforms and broad-based strength in advertising. In spite of its large size, Meta has been able to outgrow the broader digital ad market by integrating artificial intelligence and machine learning tools that boost ad spend by increasing engagement, content creation and measurement. Since its 2022 lows, when shares were trading for less than 10X next year's estimated earnings, Meta has grown its market capitalization by nearly $1 trillion. To put that into perspective, that is more than the combined market capitalizations of the smallest 225 companies in the large-cap Russell 1000® Index. Shares currently sell for about 24X FY1 earnings. While the stock has benefited from enthusiasm around AI, the re-rating in the price multiple seems entirely rational considering Meta's growth drivers, consistent free cash flow generation and a large net cash position. While Meta is no longer cheap, we feel it is still reasonably priced for a good business with attractive growth prospects and will continue to manage its position size.

WBD is a global media and entertainment company that is the result of the 2022 spin-merger of Discovery and the WarnerMedia division of AT&T. The stock has remained weak as the company continues to navigate an evolving media landscape driven by the structural shift from linear TV networks and cable TV to direct-to-consumer (DTC) streaming. The uncertainty around shifting industry economics is compounded by the many moving pieces related to WBD's ongoing integration and restructuring post its merger. For its part, WBD has made solid progress on cost cutting, debt reduction and free cash flow generation, but recent quarterly results were disappointing due to falling advertising revenues in the networks business, and management chose to not provide guidance for 2024 due to its limited visibility. Additionally, WBD's studios business, which is driven by hits at the box office, has been inconsistent, while WBD's Max streaming service is still finding its footing. With respect to the DTC business, the company has multiple levers to drive growth. These include increasing penetration of ad-supported subscriptions, geographic expansion outside the US, enhancing the user experience via an improved Max app interface, stronger execution of new content development and the launch of its new sports DTC app scheduled for this fall that is a joint venture with Fox and Disney. Yes, there is much uncertainty, but there is also a lot of opportunity, and the company has a large content portfolio it can leverage. Selling at a 30% free cash flow yield, shares look like a bargain, and if any of the company's initiatives are successful, shares could regain their luster.

Other detractors were Heineken, the second-largest brewer in the world, and United Parcel Service (UPS), a global package delivery and supply chain business. Heineken's volumes have remained soft amid challenging macro trends globally. Volume trends can ebb and flow, but on the whole, the alcoholic beverage category has a highly stable demand profile. Rather than sacrifice margins, Heineken has remained focused on maintaining its premium positioning—leveraging its strong brand portfolio and exposure to the premium beer segment—to pass through cost inflation. Heineken's brands and scale provide it with competitive advantages on margins, cash flow and the capacity to invest for growth. Also, Heineken's geographical exposures provide growth tailwinds. It has a relatively small presence in the competitive and shrinking US beer market and an outsized presence in emerging markets. Expectations for this stable and higher quality business appear relatively low—the stock sells for just 14X FY1 earnings compared to its average of 17X over the past decade.

UPS was a Q4 2023 purchase. When we initiated our position, shares were under pressure due to concerns about its new labor contract diverting volumes and driving up costs, as well as the continued normalization of volumes following COVID-related gains. The stock moved higher after we purchased it but gave up those gains in January when the company reported weaker-than-expected shipping volumes and a decline in revenue in the prior quarter. Despite the long-term growth tailwinds from the secular shift toward e-commerce, the shipping business is still cyclical, so disappointments will happen. However, we welcomed the market's short-term focus as it provided us an opportunity to purchase UPS at an undemanding valuation of less than 11X our view of normalized earnings. UPS is a good transport operation that easily earns its cost of capital, generates significant free cash, has a wide economic moat, has a strong financial profile and pays an attractive dividend yielding 4%. With the new 5-year labor agreement completed, we believe UPS can focus on regaining lost volume and improving its cost structure.

Turning back to positive performers, other winners were Arch Capital and Airbus. Arch, a global reinsurer, has experienced strong growth over the past year as reinsurance markets have been in an upswing in terms of pricing and premium growth, while rising interest rates boosted net interest income. Additionally, margins benefited from lower acquisition costs, better expense management and reduced catastrophe losses. In its mortgage insurance business, high interest rates are a headwind to top-line growth but a tailwind for margins. Arch is an industry leader capably managed by a long-tenured team that has achieved an enviable underwriting record while at the same time seeking opportunistic growth. It has shown discipline in pulling back from writing business when pricing is soft, patiently waiting for turns in the cycle to put its strong capital position to work.

France-headquartered Airbus operates in the global commercial aerospace duopoly along with Boeing. Airbus has steadily taken market share in the global installed fleet over the past 20 years, largely driven by its A320 family of narrow-body planes, and Airbus remains well positioned over the next decade to continue capturing share given the A320's clear performance edge over Boeing's 737MAX, even aside from the MAX's well-publicized quality issues. We initiated our position in Airbus in the early months of the pandemic in 2020 when the industry was hit hard. Besides the dramatic decline in air traffic, airlines were postponing maintenance to preserve cash. We believed Airbus had the balance sheet to withstand the crisis, and we knew the industry would recover as travel resumed. While we didn't know when that would occur, we knew the stock was trading cheaply based on our view of normalized earnings, offering us an attractive entry point. Besides a recovery in airline traffic, we believed Airbus' strong balance sheet, which had net cash, helped it weather the industry downturn and further strengthen its competitive position relative to Boeing.

Portfolio Activity

As the market has been grinding higher and higher, it likely comes as no surprise that value investors like us haven't been very active in terms of new purchases. In Q1, we added one new name to the portfolio: Humana. Humana is a leading US managed health care company serving approximately 17 million members in its medical benefit plans, as well as nearly 5 million members in its specialty products. After a few years of benign costs, mainly related to lower utilization trends during COVID in which the managed care industry enjoyed expanding profits and strong growth, utilization has ticked higher, driving up costs. Due to the timing of annual negotiated repricing for Medicare Advantage plans in June, Humana won't be able to adjust pricing higher until the following year. In the interim, this is problematic for near-term earnings. Naturally, this has weighed on Humana's stock price. The main drivers for the business remain intact, however, and there are no large fundamental shifts impacting the industry's long-term outlook. As opportunistic value investors, we took advantage of what we believe is a temporary air pocket in earnings to purchase shares trading at historic lows on most valuation metrics using our estimates of normalized results.

We had one sale in Q1, exiting Netflix, one of our top performers of 2023. The video streaming company has been a strong performer as price increases and a crackdown on password sharing have driven subscriber additions and higher average revenue per user. Netflix has also evolved its business model over the past year, becoming more efficient with its content spending, cracking down on password sharing and introducing a lower cost advertising-supported tier (lowering subscriber churn). Importantly, these changes have led to robust earnings and free cash flow growth. When we purchased Netflix in January 2022, the stock was selling significantly below our estimates of fair value, and by April 2022 when we added to our position after another downdraft, it was selling at just 9X our estimate of normalized earnings. At that time, there were questions about the long-term economics of streaming, slowing subscriber growth and increasing competition. Despite the growth slowdown, we viewed Netflix's position as the largest streaming service (~260 million subscribers currently) as a key strategic advantage and believed it had a significant runway of growth. Though Netflix is no longer a holding, we still like the business. Netflix remains well positioned due to its scale advantages (lower marketing costs per subscriber, greater purchasing power for content, the broadest audience, the most data and a growing library of owned content resulting in the lowest churn in the industry) to generate significant free cash flow despite aggressive content investments. However, the stock, which is now selling for over 30X forward earnings, has moved above our estimated range of fair value, and we believe the current price embeds high probabilities of best-case scenarios with little margin of safety.

Perspective

With market-cap weighted indices hitting new highs and the S&P 500® Index selling for 23X (FY1) earnings, value-conscious investors—a group in which we proudly admit to being members—may feel some trepidation regarding forward return expectations for the asset class. However, we believe it would be a mistake to focus solely on the S&P 500® Index, which has become increasingly concentrated among a few mega-cap stocks, and in our view, no longer represents the diverse opportunity set that exists within our value investment universe. As we've noted in prior letters and on our blog Artisancanvas.com, value is historically cheap. Aside from the pandemic years of 2020 to 2021, large-cap value hasn't been this cheap relative to large-cap growth since the aftermath of the tech bubble. The Russell 1000® Value Index trades for 16.5X FY1 estimated earnings. The Russell 1000® Growth Index trades at 28.8X FY1 estimates. The average and median valuation spreads between these indices have been 7.8 and 6.1 percentage points over the past 26 years. Today, it's 12.2 percentage points. We don't know if the valuation premium for growth stocks will revert in a year or over the next 10, but we do know that the current spread positions value stocks favorably from here.

For more information: Visit www.artisanpartners.com

Investment Risks: 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 and less developed markets, including frontier 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. Value securities may underperform other asset types during a given period. These risks, among others, are further described in Artisan Partners Form ADV, which is available upon request.

Unless otherwise indicated, the Artisan Strategy characteristics relate to that of an investment composite or a representative account managed within a composite. It is intended to provide a general illustration of the investment strategy and considerations used by Artisan Partners in managing that strategy. Individual accounts may differ, at times significantly, from the reference data shown due to varying account restrictions, fees and expenses, and since-inception time periods, among others. Where applicable, this information is supplemental to, and not to be construed with, a current or prospective client's investment account information. References to individual security performance relate to a representative account in the composite. Individual holding periods may differ.

For the purpose of determining the portfolio's holdings, securities of the same issuer are aggregated to determine the weight in the Strategy. The holdings mentioned above comprised the following percentages of a representative account within the Artisan Value Equity Strategy Composite's total net assets as of 31 Mar 2024: Meta Platforms Inc 4.4%, Warner Bros Discovery Inc 0.9%, United Parcel Service Inc 2.2%, Heineken Holding NV 2.2%, Arch Capital Group Ltd 3.0%, Airbus SE 3.1%, Humana Inc 2.2%; The Walt Disney Co 2.0%. Securities named in the Commentary, but not listed here are not held in the portfolio as of the date of this report.

Securities referenced may not be representative of all portfolio holdings. Securities of the same issuer are aggregated to determine a holding's portfolio weight. Portfolio statistics calculations exclude outlier data and certain securities which lack applicable attributes, such as private securities. Artisan Partners may substitute information from a related security if unavailable for a particular security. This material is as of the date indicated and is subject to change without notice. Totals may not sum due to rounding.

Attribution is used to evaluate the investment management decisions which affected the portfolio's performance when compared to a benchmark index. Attribution is not exact, but should be considered an approximation of the relative contribution of each of the factors considered.

Net-of-fees composite returns were calculated using the highest model investment advisory fees applicable to portfolios within the composite. Fees may be higher for certain pooled vehicles and the composite may include accounts with performance-based fees. All performance results are net of commissions and transaction costs, and have been presented gross and net of investment advisory fees. Dividend income is recorded net of foreign withholding taxes on ex-dividend date or as soon after the ex-dividend date as the information becomes available to Artisan Partners. Interest income is recorded on the accrual basis. Performance results for the Index include reinvested dividends and are presented net of foreign withholding taxes but, unlike the portfolio's returns, do not reflect the payment of sales commissions or other expenses incurred in the purchase or sale of the securities included in the indices.

Russell 1000® Value Index measures the performance of US large-cap companies with lower price/book ratios and forecasted growth values. Russell 1000® Index measures the performance of roughly 1,000 US large-cap companies. Russell 1000® Growth Index measures the performance of US large-cap companies with higher price/book ratios and forecasted growth values. 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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Free Cash Flow is a measure of financial performance calculated as operating cash flow minus capital expenditures. **Free Cash Flow Yield** is an overall return evaluation ratio of a stock, which standardizes the free cash flow per share a company is expected to earn against its market price per share. The ratio is calculated by taking the free cash flow per share divided by the share price. **Price-to-Earnings (P/E)** is a valuation ratio of a company's current share price compared to its per-share earnings. **Margin of Safety**, a concept developed by Benjamin Graham, is the difference between the market price and the estimated intrinsic value of a business. A large margin of safety may help guard against permanent capital loss and improve the probability of capital appreciation. Margin of safety does not prevent market loss—all investments contain risk and may lose value. **Dividend Yield** is a financial ratio that shows how much a company pays out in dividends each year relative to its share price.

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