



# Artisan Small Cap Fund

MONTHLY  
Commentary

Investor Class: ARTSX | Advisor Class: APDSX

As of 31 January 2022

## Commentary

Equity markets are off to a volatile start this year. With inflation readings elevated and the Fed pointing to policy tightening ahead, many market participants spent January rapidly positioning for higher interest rates. This has caused companies whose valuations are dependent on profits further into the future (growth companies) to underperform despite mostly unchanged fundamental outlooks. Small-cap growth stocks were some of the hardest hit, and our portfolio underperformed the Russell 2000® Growth Index.

Over our team's 25 years of investing, we have experienced several sharp corrections. Often, our portfolio goes down more than the market during the initial phase as investors sell their winners and position for short-term safety. As the dust settles, our holdings have often rebounded nicely as strong franchises benefiting from positive profit cycles tend to regain leadership. During the worst bear markets of our careers (2000 tech bubble, 2008-2009 financial crisis, 2020 pandemic lockdown), our process has helped us protect capital.

We continue to follow that same investment process. Risk management is important to us during all phases of the market cycle, and for us this starts with ensuring our companies possess franchise characteristics and healthy balance sheets. We monitor our holdings' profit cycles closely, keeping capital concentrated in businesses with positive fundamental trends. We are also very cognizant of valuations, revisiting our private market value (PMV) estimates and paring our exposures when valuations approach unreasonable levels. While these guardrails may help us steer clear of permanent capital losses (the true enemy of strong compounded portfolio returns), short-term price/sentiment volatility, while not enjoyable, is to be expected for public market investors.

We expect interest rates to remain top of mind for investors throughout 2022. We, like many, expect the Fed to begin tightening in March. Our base case assumption is longer term rates will normalize higher from here, which we think is now mostly reflected in market valuations. We recognize the possibility that even as COVID-induced supply chain and labor frictions moderate, persistently high inflation may cause rates to exceed this base case scenario. In this event, the debate may shift away from growth stock valuations toward broader economic slowdown and rising credit risks—which may cause investors to once again appreciate companies with secular growth drivers and clean balance sheets.

Even after factoring in somewhat higher interest rates into our PMV estimates, we believe the recent market volatility has resulted in opportunistic valuation levels for our portfolio. We say that with a reasonably long-time horizon—short-term market moves are hard to call. While early, our confidence in our long-term profit growth outlooks has been reinforced by the reports we've seen so far from the current earnings season. Companies such as Allegro MicroSystems, Live Oak Bancshares, Advanced Drainage, Azek, Paycor and Leslie's have reported solid results and outlooks for Q4 2021 and 2022, respectively. As such, we have taken advantage of the volatility to add to some of our highest conviction holdings.

## Investment Results (%)

As of 31 January 2022	MTD	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception
<b>Investor Class: ARTSX</b>	<b>-16.42</b>	<b>-16.42</b>	<b>-16.42</b>	<b>-24.10</b>	<b>14.47</b>	<b>16.29</b>	<b>13.49</b>	<b>9.90</b>
<b>Advisor Class: APDSX</b>	<b>-16.42</b>	<b>-16.42</b>	<b>-16.42</b>	<b>-23.99</b>	<b>14.61</b>	<b>16.44</b>	<b>13.56</b>	<b>9.93</b>
Russell 2000® Growth Index	-13.40	-13.40	-13.40	-15.04	11.36	10.93	11.70	8.05
Russell 2000® Index	-9.63	-9.63	-9.63	-1.21	11.99	9.69	11.33	9.40

  

As of 31 December 2021	MTD	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception
<b>Investor Class: ARTSX</b>	<b>-0.50</b>	<b>-6.99</b>	<b>-8.90</b>	<b>-8.90</b>	<b>27.15</b>	<b>21.66</b>	<b>16.77</b>	<b>10.67</b>
<b>Advisor Class: APDSX</b>	<b>-0.47</b>	<b>-6.93</b>	<b>-8.77</b>	<b>-8.77</b>	<b>27.32</b>	<b>21.81</b>	<b>16.84</b>	<b>10.70</b>
Russell 2000® Growth Index	0.44	0.01	2.83	2.83	21.17	14.53	14.14	8.66
Russell 2000® Index	2.23	2.14	14.82	14.82	20.02	12.02	13.23	9.84

Source: Artisan Partners/Russell. Returns for periods less than one year are not annualized. Class inception: Investor (28 March 1995); Advisor (1 February 2017). For the period prior to inception, Advisor Class performance is the Investor Class's return for that period ("Linked Performance"). Linked Performance has not been restated to reflect expenses of the Advisor Class and the share class's returns during that period would be different if such expenses were reflected.

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 800.344.1770 for current to most recent month-end performance.

## Portfolio Details

	ARTSX	APDSX
Net Asset Value (NAV)	\$35.02	\$35.32
Inception	28 Mar 1995	1 Feb 2017
Expense Ratios		
Annual Report 30 Sep 2021	1.19%	1.06%
Prospectus 30 Sep 2021 <sup>1</sup>	1.19%	1.06%

<sup>1</sup>See prospectus for further details.

## Top 10 Holdings (% of total portfolio)

Halozyme Therapeutics Inc (Health Care)	5.2
Lattice Semiconductor Corp (Information Technology)	4.6
Blackline Inc (Information Technology)	4.1
Ascendis Pharma A/S (Health Care)	3.7
Monolithic Power Systems Inc (Information Technology)	3.6
Ingersoll Rand Inc (Industrials)	3.2
Zynga Inc (Communication Services)	3.2
Argenx SE (Health Care)	3.1
Novanta Inc (Information Technology)	3.0
Valmont Industries Inc (Industrials)	2.9
<b>TOTAL</b>	<b>36.6%</b>

Source: Artisan Partners/GICS.

## Sector Diversification (% of portfolio securities)

	Fund	R2G <sup>1</sup>
Communication Services	4.8	2.8
Consumer Discretionary	12.7	14.8
Consumer Staples	0.8	4.0
Energy	0.0	2.7
Financials	3.5	5.7
Health Care	25.6	24.8
Industrials	10.3	15.4
Information Technology	41.9	22.9
Materials	0.0	3.3
Real Estate	0.4	3.3
Utilities	0.0	0.4
<b>TOTAL</b>	<b>100.0%</b>	<b>100.0%</b>

Source: Artisan Partners/GICS/Russell. Cash and cash equivalents represented 1.1% of the total portfolio. <sup>1</sup>Russell 2000® Growth Index.

Average Annual Total Returns

## Market Cap Distribution (% of portfolio securities)

\$ in billions	Fund	R2G <sup>1</sup>
5.8+	45.3	12.5
4.4–5.8	27.6	19.6
3.2–4.4	10.0	21.4
1.8–3.2	11.3	22.5
0.0–1.8	5.8	24.1
<b>TOTAL</b>	<b>100.0%</b>	<b>100.0%</b>

Source: Artisan Partners/Russell. <sup>1</sup>Russell 2000<sup>®</sup> Growth Index.

## Team Leadership (Pictured left to right)



Portfolio Managers	Years of Investment Experience
Craig A. Cepukenas, CFA (Lead)	33
James D. Hamel, CFA	25
Matthew H. Kamm, CFA	22
Jason L. White, CFA	22
Jay C. Warner, CFA	20

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.

Current and future portfolio holdings are subject to risk. 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.

Russell 2000<sup>®</sup> Growth Index measures the performance of US small-cap companies with higher price/book ratios and forecasted growth values. Russell 2000<sup>®</sup> Index measures the performance of roughly 2,000 US small-cap companies. The index(es) are unmanaged; include net reinvested dividends; do not reflect fees or expenses; and are not available for direct investment.

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 Fund's total net assets as of 31 Jan 2022: Advanced Drainage Systems Inc 1.8%; Allegro MicroSystems Inc 1.3%; Leslie's Inc 0.6%; Live Oak Bancshares Inc 0.7%; Paycor HCM Inc 0.7%; The AZEK Co Inc 0.4%. Securities named in the Commentary, but not listed as a Top Ten Holding or not listed here are not held in the Fund as of the date of this report. The portfolio managers' views and portfolio holdings are subject to change and the Fund disclaims any obligation to advise investors of such changes.

Unless otherwise indicated, all information in this report includes all classes of shares, except performance and expense ratio information, and is as of the date shown in the upper right hand corner. Totals may not sum due to rounding.

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Sector exposure percentages reflect sector designations as currently classified by GICS.

Our capital allocation process is designed to build position size according to our conviction. Portfolio holdings develop through three stages: Garden<sup>SM</sup>, Crop<sup>SM</sup> and Harvest<sup>SM</sup>. Garden<sup>SM</sup> investments are situations where we believe we are right, but there is not clear evidence that the profit cycle has taken hold, so positions are small. Crop<sup>SM</sup> investments are holdings where we have gained conviction in the company's profit cycle, so positions are larger. Harvest<sup>SM</sup> investments are holdings that have exceeded our estimate of intrinsic value or holdings where there is a deceleration in the company's profit cycle. Harvest<sup>SM</sup> investments are generally being reduced or sold from the portfolios.

Private Market Value is an estimate of the value of a company if divisions were each independent and established their own market stock prices.

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