

Thoughts on Recent Market Volatility and Our Portfolio Positioning

A discussion with Artisan Partners Growth Team

PORTFOLIO MANAGER
Viewpoints

March 2020

Escalating COVID-19 concerns and Saudi Arabia's decision to cut oil prices and boost production have prompted a sharp selloff in global equity markets in recent weeks. We are monitoring both situations closely and believe the biggest relative performance risk from here is massive volatility. While there will likely be large up days for battered sectors, we expect a drift lower on balance until the true extent of the COVID-19 impact can be discounted into stock prices.

Our lack of direct exposure to the energy sector leaves our portfolios relatively well-positioned against the risk of a pricing war among the world's largest oil producers. We eliminated our energy exposure in 2019 and have since sought to build positions in renewable energy companies—most of which are utilities—with more attractive profit-cycle opportunities. Wind and solar economics have improved meaningfully over the last decade given technology improvements and capital-cost declines, and it is cheaper to add an incremental megawatt of electrical capacity via wind and solar today than it is via nuclear, coal and natural gas—notably, without government subsidies. This trend is in the early stages, and we expect this pricing gap to widen over time, with our holdings—which have on average held up better than our other holdings and broader benchmarks in recent weeks—well-positioned, in our view, to benefit from accelerating profit cycles.

Turning to COVID-19, we believe the illness will be disruptive to supply chains and demand across the global economy in the short term—pressuring corporate profits for at least the first and second quarters of 2020. If the virus returns during the fall flu season, there could also be after-effects beyond the first half. While the impact's magnitude is impossible to predict, we believe any spending decisions that can be delayed will be delayed and there will be job loss, particularly in the airline, hotel and rental-car sectors—all sectors where we have below-benchmark exposure today and which we have historically shied away from given their cyclical nature and tendency to be driven by external factors. Furthermore, any companies with a field sales force will struggle in the short-term since people are staying off airplanes. That said, we believe that as in past public health emergencies (such as SARS in 2003 and H1N1 in 2009), this disruption will prove temporary.

We are satisfied with our portfolios' overall quality, and we have been encouraged by their relative resilience since the selloff started in the second half of February. We attribute this to a few factors: our focus on high-quality franchises with strong balance sheets and our below-benchmark exposure to some of the hardest-hit areas of the economy (travel, commodities, China, energy, financials).

Consistent with what we have stated in various other periods of market volatility and how we believe we differentiate ourselves as active managers, we have become significantly more active over the past month amid the heightened market volatility. We have been drawing down our cash positions, which had been elevated in recent quarters, and deploying capital into our high-conviction holdings at opportunistic price points relative to our growth expectations over the next two to three years. Furthermore, we have not materially changed our long-term earnings expectations or private market valuations for businesses in our portfolios, and we remain laser-focused on our investment process—putting capital behind strong franchises with visible profit-cycle drivers and healthy balance sheets and following trends that are more secular than cyclical in nature. With history as a guide, this market correction will likely be an opportunity for our kind of resilient franchise growth companies.



Portfolio Managers (L-R):

Jason L. White, CFA
Portfolio Manager

20 Years Investment Experience

James D. Hamel, CFA
Portfolio Manager

23 Years Investment Experience

Craig A. Cepukenas, CFA
Portfolio Manager

31 Years Investment Experience

Matthew H. Kamm, CFA
Portfolio Manager

20 Years Investment Experience

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Investment Results (%)

As of 31 December 2019

Management: James Hamel, Craig Cepukenas, Matthew Kamm, Jason White

Fund Name and Inception Date	Share Class	Average Annual Total Returns					Expense Ratio (%) ³
		1 Yr	3 Yr	5 Yr	10 Yr	Inception	
Artisan Global Opportunities Fund 22 Sep 2008	Investor: ARTRX	35.60	17.38	12.79	13.70	11.73	1.15
Artisan Global Opportunities Fund 1 Apr 2015 ²	Advisor: APDRX	35.75	17.53	12.92	13.77	11.79	1.01
MSCI All Country World Index		26.60	12.44	8.41	8.79	7.53	
Artisan Global Discovery Fund 21 Aug 2017	Investor: APFDX	42.57	—	—	—	18.26	1.41
MSCI All Country World Index		26.60	—	—	—	10.11	
Artisan Mid Cap Fund 27 Jun 1997	Investor: ARTMX	38.12	16.89	10.10	13.72	13.35	1.19
Artisan Mid Cap Fund 1 Apr 2015 ²	Advisor: APDMX	38.47	17.07	10.26	13.80	13.38	1.05
Russell Midcap® Growth Index		35.47	17.36	11.60	14.24	9.10	
Artisan Small Cap Fund 28 Mar 1995 ¹	Investor: ARTSX	40.14	22.03	13.99	15.27	9.87	1.21
Artisan Small Cap Fund 1 Feb 2017 ^{1,2}	Advisor: APDSX	40.33	22.18	14.07	15.32	9.89	1.09
Russell 2000® Growth Index		28.48	12.49	9.34	13.01	7.96	

As of 29 February 2020

Fund Name and Inception Date	Share Class	Average Annual Total Returns				
		1 Yr	3 Yr	5 Yr	10 Yr	Inception
Artisan Global Opportunities Fund 22 Sep 2008	Investor: ARTRX	14.05	12.54	10.51	13.38	11.08
Artisan Global Opportunities Fund 1 Apr 2015 ²	Advisor: APDRX	14.22	12.70	10.65	13.46	11.14
MSCI All Country World Index		3.89	6.96	5.55	8.10	6.53
Artisan Global Discovery Fund 21 Aug 2017	Investor: APFDX	16.46	—	—	—	15.25
MSCI All Country World Index		3.89	—	—	—	5.38
Artisan Mid Cap Fund 27 Jun 1997	Investor: ARTMX	13.16	13.91	8.99	13.56	13.18
Artisan Mid Cap Fund 1 Apr 2015 ²	Advisor: APDMX	13.41	14.09	9.15	13.65	13.22
Russell Midcap® Growth Index		7.86	12.63	9.14	13.44	8.73
Artisan Small Cap Fund 28 Mar 1995 ¹	Investor: ARTSX	9.78	18.01	13.20	15.41	9.70
Artisan Small Cap Fund 1 Feb 2017 ^{1,2}	Advisor: APDSX	9.91	18.16	13.29	15.46	9.71
Russell 2000® Growth Index		-0.72	7.85	6.48	12.07	7.54

Source: Artisan Partners/MSCI/Russell. Returns for periods less than one year are not annualized. ¹Closed to most new investors. ²For the period prior to inception, Advisor Class performance is the Investor Class' return for that period ("Linked Performance"). Linked Performance has not been restated to reflect expenses of the Advisor Class and each share's respective returns during that period would be different if such expenses were reflected. ³As of 30 Sep 2019. See prospectus for further details.

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