

Disciplined Value Investing in Volatile Times

A Discussion with Artisan Partners Global Value Team portfolio manager Daniel J. O'Keefe

PORTFOLIO MANAGER
Viewpoints

March 2020

In my nearly 30-year investing career, I have been through a number of stock market routs. This one ranks up there as one of the worst, if not for its depth (which remains as yet undetermined), then certainly for its intensity. The market has sold off more quickly than ever in history and I have never seen more days of double-digit or nearly double-digit declines in such a short period of time. This makes sense as it's probably the fastest drop-off in economic activity that we have ever seen—one day everyone's at work and the next day everyone's at home and all the restaurants are closed. The panic and fear are extreme with emotion filling the void where information and analysis normally exist. Yet in every instance of my career, periods of fear and panic have presented incredible bargains; I believe that this one is no different. I have learned that when it feels really bad, it's usually the best time to allocate capital. It is painful and ugly right now, but our goal is to buy the long-term survivors and compounders to position the portfolio for strong multi-year gains later.

We must behave based on data, fact and information instead of emotion, which is not always easy to do. We do not know when the COVID-19 pandemic will end and what the ultimate economic damage will be, but we do have some insight. China was the first to suffer a widespread outbreak. Its economy ground to a virtual standstill but is now starting to recover. Our conversations with executives who manage businesses in China tell us that activity there is bouncing back. We expect that the US and Europe—both currently at the front end of an outbreak—will follow a similar, though not identical, pattern. We are in regular conversation with doctors at hospitals in the US to follow the infection and death trends here at home. Governments in the US and across Europe are in the process of launching unprecedented monetary and fiscal stimulus to blunt the impact and hasten a rebound. The economy will likely worsen and then it will recover. But we don't know the details.

It is this very uncertainty that is causing investors in many cases to price businesses as if there will be no return to normal economic conditions. One must remember, the value of a business is the present value of ALL future cashflows, not just those over the next few months. It's a simple analytical point, but a foundational one. We are being disciplined and doing what we always do: focusing on understanding our businesses, examining balance sheets and buying good businesses at what we believe to be cheap prices. We have been relentlessly gathering information and reading earnings reports of as many companies as we can to learn what other executives are seeing. We are also stress testing our basic assumptions to understand a business's ability to make it through this crisis (balance sheet strength) and what the earnings power will be coming out on the other side (business quality). In many cases, we are finding significant dislocations between price and value. We are not saying today is the bottom—it can always get worse and price can always dislocate further from value—but that doesn't mean there isn't already a large gap between price and value today.

We are excited about the current upside to fair value in the portfolio, which at an estimated 80% is the widest it has been since the financial crisis and among the widest I have ever seen in my career.



Daniel J. O'Keefe
Portfolio Manager

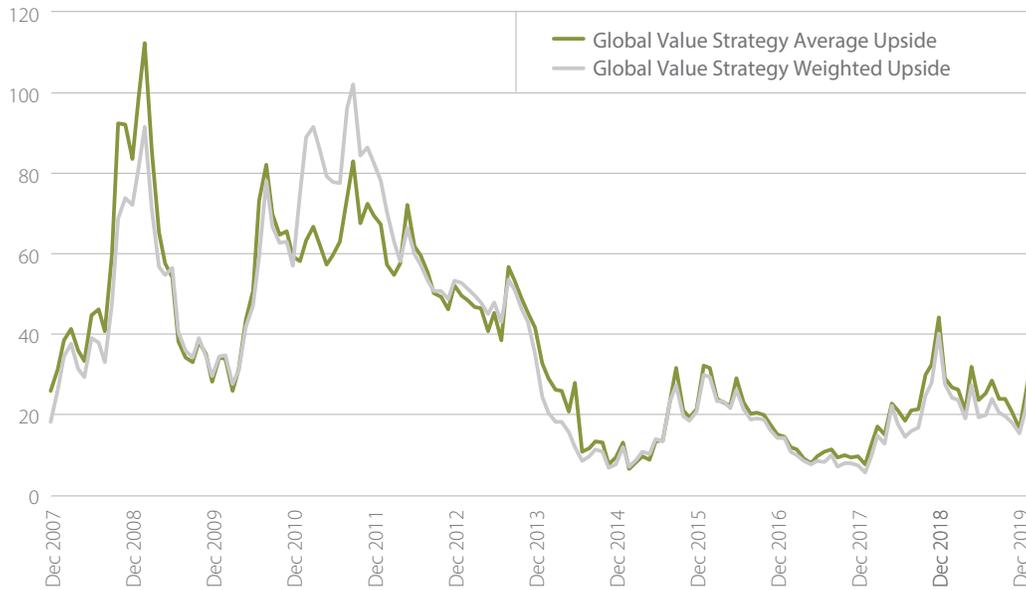
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P A R T N E R S

Largest Average Estimated Upside to Fair Value Since the Financial Crisis (%)



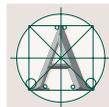
We are finding significant dislocations between price and value. Cash is at the lowest level since inception.

Source: Artisan Partners. Upside to fair value estimates are subjectively determined by Artisan Partners Global Value Team and are subject to change without notice. The upside to fair value is based on the portfolio securities values as of the 19 Mar 2020. Based on a representative account in the Artisan Global Value Composite.

Cash is at the lowest level since inception at under 2%. We are finally seeing value emerge in abundance in areas other than financials and 90% of our buying activity reflects that. We have added new names to the portfolio and aggressively added to existing names like Oracle, Cognizant, Dentsply Sirona, Booking, Google, Facebook, Heidelberg Cement, and BNYM where discounts have widened substantially. The price adjusted quality of the portfolio is the highest it has been in many years. Companies with net cash or near net cash on the balance sheet comprise roughly half the portfolio, including Samsung, Facebook, Cognizant, Google, Telefonica Brasil, Booking, Richemont, Expedia, Baidu, and Tesco. All the banks we own are very well-capitalized with strong liquidity and funding structures, yet some are now trading at levels not seen since the financial crisis, when investors thought they were going under. In our view, that is not the case today.

I have personally increased my investment in the US mutual funds we manage alongside clients.

I look forward to sharing more detail on our activity and the portfolio in our upcoming quarterly letter.



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