

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, Craigh Cepukenas, Matthew Kamm, Jason White

Strategy Name and Inception Date	Average Annual Total Returns				
	1 Yr	3 Yr	5 Yr	10 Yr	Inception
Artisan Global Opportunities Strategy—Gross 1 Feb 2007	37.01	18.75	14.03	15.07	11.20
Artisan Global Opportunities Strategy—Net	35.90	17.76	13.06	14.08	10.28
MSCI All Country World Index	26.60	12.44	8.40	8.78	5.50
Artisan Global Discovery Strategy—Gross 1 Sep 2017	44.29	—	—	—	18.97
Artisan Global Discovery Strategy—Net	42.93	—	—	—	17.83
MSCI All Country World Index	26.60	—	—	—	9.50
Artisan U.S. Mid-Cap Growth Strategy—Gross 1 Apr 1997	39.78	18.36	11.45	15.11	15.20
Artisan U.S. Mid-Cap Growth Strategy—Net	38.52	17.28	10.43	14.05	14.13
Russell Midcap® Growth Index	35.47	17.36	11.60	14.23	9.65
Artisan U.S. Small-Cap Growth Strategy—Gross 1 Apr 1995	41.90	23.56	15.42	16.70	11.38
Artisan U.S. Small-Cap Growth Strategy—Net	40.52	22.35	14.28	15.55	10.29
Russell 2000® Growth Index	28.48	12.49	9.33	13.00	7.97

As of 29 February 2020

Strategy Name and Inception Date	Average Annual Total Returns				
	1 Yr	3 Yr	5 Yr	10 Yr	Inception
Artisan Global Opportunities Strategy—Gross 1 Feb 2007	15.04	13.73	11.70	14.70	10.63
Artisan Global Opportunities Strategy—Net	14.09	12.78	10.76	13.72	9.72
MSCI All Country World Index	3.89	6.95	5.54	8.09	4.66
Artisan Global Discovery Strategy—Gross 1 Sep 2017	17.56	—	—	—	15.82
Artisan Global Discovery Strategy—Net	16.43	—	—	—	14.71
MSCI All Country World Index	3.89	—	—	—	4.77
Artisan U.S. Mid-Cap Growth Strategy—Gross 1 Apr 1997	14.15	15.27	10.29	14.93	15.02
Artisan U.S. Mid-Cap Growth Strategy—Net	13.10	14.21	9.27	13.88	13.95
Russell Midcap® Growth Index	7.86	12.62	9.13	13.43	9.28
Artisan U.S. Small-Cap Growth Strategy—Gross 1 Apr 1995	11.13	19.47	14.61	16.82	11.20
Artisan U.S. Small-Cap Growth Strategy—Net	10.03	18.29	13.48	15.67	10.12
Russell 2000® Growth Index	-0.72	7.85	6.48	12.06	7.55

Source: Artisan Partners/MSCI/Russell. Returns for periods less than one year are not annualized.

Annual Returns (%)

12 Months Ended as of 31 December

	2015	2016	2017	2018	2019
Artisan Global Opportunities Strategy—Gross	9.12	5.53	32.73	-7.92	37.01
Artisan Global Discovery Strategy—Gross	—	—	—	-1.93	44.29
Artisan U.S. Mid-Cap Growth Strategy—Gross	3.44	0.28	21.96	-2.74	39.78
Artisan U.S. Small-Cap Growth Strategy—Gross	1.61	6.90	28.38	3.54	41.90

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 on the next page, which should be read in conjunction with this material.

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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. 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 in Artisan Partners' Form ADV, which is available upon request.

This summary represents the views of the investment team as of 16 Mar 2020, which will fluctuate and those views are subject to change without notice. While the information contained herein is believed to be reliable, there is no guarantee as to the accuracy or completeness of any statement in the discussion. Any forecasts contained herein are for illustrative purposes only and are not to be relied upon as advice or interpreted as a recommendation.

Strategy information contained herein relates to a representative account managed within the investment composite. It is intended to provide a general illustration of the investment strategy and considerations used by Artisan Partners in managing the strategy.

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.

MSCI All Country World Index measures the performance of developed and emerging markets. Russell Midcap[®] Growth Index measures the performance of US mid-cap companies with higher price/book ratios and forecasted growth values. Russell 2000[®] Growth Index measures the performance of US small-cap companies with higher price/book ratios and forecasted growth values. 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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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.

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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