Artisan Select Equity Fund

QUARTERLY
Commentary

Investor Class: ARTNX | Advisor Class: APDNX | Institutional Class: APHNX

As of 30 September 2020

Investment Process

We seek to invest in high-quality, undervalued companies with strong balance sheets and shareholder-oriented management teams.

Undervaluation

Determining the intrinsic value of a business is the heart of our research process. Intrinsic value represents the amount that a buyer would pay to own a company's future cash flows. We seek to invest at a significant discount to our estimate of the intrinsic value of a business.

Business Quality

We seek to invest in companies with histories of generating strong free cash flow, improving returns on capital and strong competitive positions in their industries.

Financial Strength

We believe that investing in companies with strong balance sheets helps to reduce the potential for capital risk and provides company management the ability to build value when attractive opportunities are available.

Shareholder-Oriented Management

Our research process attempts to identify management teams with a history of building value for shareholders.

Team Overview

Our team has worked together for many years and has implemented a consistent and disciplined investment process. Our team is organized by geographic regions, but within those regions we are generalists who look across all industries. We believe this model enables our analysts to become broad thinkers and gain critical insight across all economic sectors.

Portfolio Management

Daniel J. O'Keefe
Portfolio Manager (Lead)
Managing Director

Michael J. McKinnon, CFA
Co-Portfolio Manager
Managing Director

Justin V. Bandy, CFA
Co-Portfolio Manager

Investment Results (%)

As of 30 September 2020	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception
			Average Annual Total Returns				
Investor Class: ARTNX	**8.77**	—	—	—	—	—	**1.70**
Advisor Class: APDNX	**8.88**	—	—	—	—	—	**1.80**
Institutional Class: APHNX	**8.76**	—	—	—	—	—	**1.80**
S&P 500® Index	8.93	—	—	—	—	—	15.09

Source: Artisan Partners/S&P. Returns for periods less than one year are not annualized. Class inception: Investor (28 February 2020); Advisor (28 February 2020); Institutional (28 February 2020).

Expense Ratios (% Gross/Net)	ARTNX	APDNX	APHNX
Semi-Annual Report 31 Mar 2020[1,2]	22.74/1.25	7.46/1.15	1.75/1.10
Prospectus 20 Feb 2020[2,3,4]	1.64/1.25	1.45/1.15	1.32/1.10

[1]Unaudited, for the period from commencement of operations 28 Feb 2020 through 31 Mar 2020. [2]Net expenses reflect a contractual expense limitation agreement in effect through 28 Feb 2021. [3]Includes estimated expenses for the current fiscal year. [4]See prospectus for further details.

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. Performance may reflect agreements to limit a Fund's expenses, which would reduce performance if not in effect. The Fund's returns may vary greatly over shorter periods due to the limited operating period since inception.

Market Overview

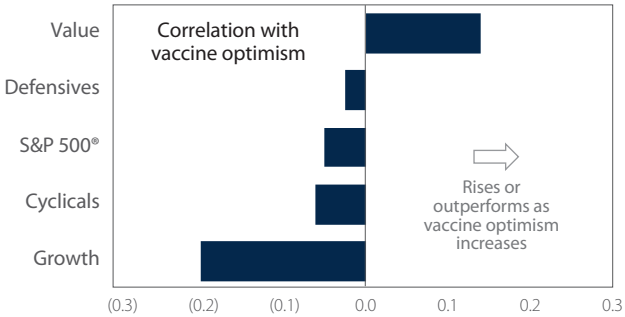
We wish there was something to discuss other than the virus. We imagine you do, too. But alas, as with just about everything these days, stock markets and the economy are taking all their cues from COVID-19. It feels like a tug-of-war most of the time. Markets rise on the hopes of fiscal stimulus to buttress economies from the pandemic's economic fallout and fall when those hopes recede. And of course, they rise and fall with hope of the pandemic's eventual end, thanks either to a vaccine or naturally acquired herd immunity. In Q3, hope overcame fear as the market continued looking through the virus to a recovery on the other side. Most major stock markets posted high single-digit gains in dollars for the quarter, with the US notably outperforming most other markets by a sizable margin. The US has left other developed markets in the dust for several years now, and for good reason: The US is home to an information technology industry which continues growing despite overall economic headwinds. Europe has essentially no information technology industry. This in large part explains why European stock markets returned roughly one quarter the US market's return over the past decade.

Beneath the surface of a rising stock market, there is another noteworthy tug-of-war—between growth and value stocks. Longtime readers will know value investing is out of favor and has been for a long time. Indeed, this is the longest period of underperformance of value vs. growth stocks in our careers and probably in market history. And Q3 continued the trend: Globally, value indices consistently trailed the market by a sizable margin. We are often asked when we believe value investing may come back into favor—or at least regain some credibility. We saw glimmers of an answer in the market this past quarter.

In short, when investors are pessimistic about the virus and its economic fallout, they pile into companies either benefiting from the virus or whose prospects are at a minimum undiminished by the pandemic. Many of these companies have become very expensive because of their perceived safety. They are also quite scarce. We note that just four companies accounted for nearly one-quarter of the global index's Q3 return. And their average valuation is 90X earnings. Indeed, strong returns among the few growth stocks riding out the pandemic without a hiccup are supporting the overall market, as we wrote last quarter.

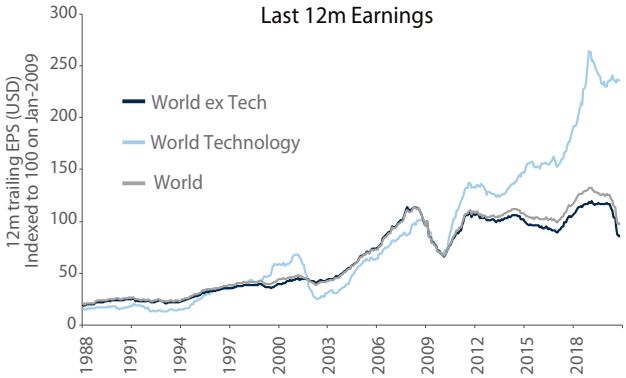
But when signs of an economic rebound or the pandemic's end surface, investors shift their attention to those stocks either left to the side because they lack sizzle or whose earnings have been devastated by the pandemic—in other words, many of our holdings. We see this in Exhibit 1, courtesy of Goldman Sachs: Value stocks tend to do better amid optimism around a vaccine—which is another way of saying optimism around the pandemic's eventual end. This makes sense as many value stocks have seen their earnings collapse because of COVID—as opposed to, say, companies like Amazon and Netflix and Zoom, whose prospects have been enhanced by it. In fact, if we exclude technology companies, the market's earnings per share (EPS) growth since 2008 has been essentially zero, as shown in Exhibit 2.

Exhibit 1: Value, Not Cyclicals, Is Positively Correlated With Vaccine Optimism



Source: Goldman Sachs. As of 17 Sep 2020. Based on GS Cyclicals/Defensives baskets and S&P 500® Growth/Value. Data covers the period 22 Aug 2020 to 8 Sep 2020. **Past performance is not a reliable indicator of future results.**

Exhibit 2: Tech Earnings Have Outstripped Those of the Global Market



Source: Goldman Sachs/Refinitiv. "World" data coverage includes over 81,000 companies in 120+ countries, accounting for 99% of global market capitalization.

September proved to be an interesting case study. The twin expectations of further US federal government stimulus spending as well as an emerging consensus around a vaccine approval by the end of 2020 or early in 2021 helped drive a tilt toward value stocks, which markedly outperformed growth stocks in the US. In most other markets, value kept pace with growth over the month. Granted, it's only one month and we certainly do not modify our behavior based on such a short time period. But it shows that in the game of tug of war, the direction of travel can reverse pretty quickly.

Portfolio Discussion

We did not add any new names to the portfolio this quarter—but we were quite active. We significantly increased our positions in five names: Dentsply Sirona, Richemont, Berkshire Hathaway, BNY Mellon and Samsung Electronics. Berkshire is a recent addition to the portfolio which we wrote about last quarter.

What is notable to us about these businesses is their quality. Berkshire is one of the best companies in the world with a collection of attractive industrial assets, one of the world's best insurance

businesses and a fortress balance sheet. Dentsply is the world's leading supplier of dental products to dentists and orthodontists globally. Its business has been severely disrupted by the pandemic as dental office visits have collapsed. But people will return to the office when the pandemic ends, and we believe Dentsply will return to attractive levels of margin and free cash flow. Richemont is one of the world's leading luxury goods makers. It owns iconic brands such as Cartier, Van Cleef & Arpels as well as a number of watch and luxury goods brands. Many of its stores have been shuttered during the pandemic. But it has a net cash balance sheet and brands with enduring value and appeal. We believe the business will bounce back post pandemic. BNY Mellon (BK) has been caught up in the broader sell-off of financials which have been dragged down by fears of credit provisions and falling net interest margins due to the interest rate environment. But BK is not a traditional bank and has virtually no credit risk. It generates almost all its revenue from custody and asset management fees. Revenue and therefore profits have certainly been negatively impacted by falling rates as BK holds customer deposits on its balance sheet and the income levels from investing those deposits have collapsed. But even with this collapse, BK generates nearly 30% operating margins and a strong double-digit return on tangible equity (tangible book value). And yet it trades at only 9X current year earnings. And Samsung is the cheapest high-quality information technology business in the world that we are aware of. It has dominant positions in memory semiconductors and shares global leadership in smartphones with Apple. It holds more than $50bn of net cash on its balance sheet and trades for a low single-digit multiple of operating profit. Its valuation is held back by the currently depressed state of the memory market, which we think will begin to normalize over the next few quarters.

We sold our shares in Oracle. The company is one of the largest enterprise software companies in the world. Its business has held up extremely well during the pandemic, and the stock has been one of our top performers. But Oracle's business is dominated by on-premise software, and it is navigating a shift toward software as a service which creates revenue and margin headwinds. In addition, its competitors are growing more quickly in the cloud, and Oracle is losing share at the margin. As a result, Oracle is a very steady business but one without much growth. We sold our shares after a successful campaign and reinvested the proceeds in businesses with better long-term growth prospects.

Our best performers this quarter were FedEx, Cognizant and Berkshire Hathaway.

FedEx is an unlikely beneficiary of COVID-19. The business is benefiting from what is essentially a scarcity of delivery capacity in both its express and ground networks. Under normal circumstances, a lot of cargo is shipped in the belly of passenger airplanes, so the commercial air fleet's grounding has significantly reduced air freight capacity. In addition, elevated e-commerce activity has created a tight market for residential package deliveries. These dynamics have resulted in a favorable pricing environment for owners of freight and package networks like FedEx. Some of this benefit will be temporary, but some will be structural. The constrained capacity is expected to last through the holiday season, with the potential for further demand on the logistics networks if a vaccine is approved. FedEx's shares have rallied as a result, but the valuation remains undemanding at 13X our estimate of normalized earnings.

Cognizant's share price performance in Q3 was driven by its resilient operating results and strong free cash flow generation. Its revenue declined only 2% YoY organically (excluding a content business it is proactively exiting, and a one-off ransomware attack) in what was a difficult macro environment. For the first time, management started providing commentary on bookings, which grew 14% YoY in the first half, with digital bookings up 50% YoY—the result of clients' ongoing investments in digital engineering, cloud, analytics, etc., while consolidating vendors as they direct their spend toward more strategic partners. On the cost side, despite the pandemic, management made material progress on its Fit for Growth program as outlined last year, which includes structural cost reduction, part of which will be reinvested to drive future growth. Lastly, Cognizant announced the appointment of Jan Siegmund as its new CFO starting September 1. In addition to serving as ADP's CFO for over six years, Jan has significant experience in strategy and operations.

Berkshire's (BRK) share price rose 19% this quarter. We think part of this bounce was simply just a recovery from a very depressed valuation. But BRK did report decent earnings which helped as well, and Mr. Buffett also made some investments in Japan which were well received. Investors had become concerned because BRK did not deploy any of its significant cash pile during the selloff in the first quarter. In past crises, BRK has deployed significant capital into attractive investments that subsequently generated very attractive returns.

Our worst performers were Citigroup, Bank of New York Mellon and Dentsply Sirona.

Citigroup shares declined 15% during the quarter, thanks primarily to a regulatory issue that arose after the company accidentally made a $900mn payment to a lender. This landed the company in the government's crosshairs and will require a costly remediation of its risk systems. Risk-management issues aside, the underlying business is performing reasonably well. Revenues for the year should be roughly flat, and credit-provisioning seems to have peaked, which means Citi should remain nicely profitable through the crisis. In just the first three quarters of 2020, it has already earned $7bn of net income, despite taking $11bn in additional reserves. The market cap is $90bn. The bank is well-capitalized, and the shares trade at <0.6X tangible book value.

Bank of New York Mellon shares declined 10% during the quarter, due mostly to the trajectory of interest rates. This is a steady business, generating 80% of revenues from fees and with limited credit exposure. However, the company earns significant float income that is

interest-rate sensitive. Management is controlling costs, and we expect the business will remain profitable through the crisis. Along with other banks, it is still restricted from buying back stock, so the capital levels are currently elevated (and becoming more so each quarter). This has delayed the capital return, but we expect the company will return all the excess capital sometime next year. The shares are trading at ~9X earnings, which we think is an attractive price for a stable business that generally returns all its profits to shareholders.

Dentsply shares were essentially flat for the quarter. The stock had bounced quite aggressively from its March lows and investors are awaiting signs that dentist visits are beginning to recover.

We expect the next several months to be volatile. We are facing a US presidential election and a second wave of the virus which is currently building in Europe. We will continue to focus on acquiring high-quality businesses at attractive prices in order to position the portfolio for attractive potential gains as the world normalizes post-COVID.

For more information: Visit www.artisanpartners.com | Call 800.344.1770

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. A non-diversified portfolio may invest a larger portion of assets in securities of a smaller number of issuers and performance of a single issuer may affect overall portfolio performance greater than in a diversified portfolio. 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 or growth securities may underperform other asset types during a given period.

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This summary represents the views of the portfolio managers as of 30 Sep 2020. Those views may change, and the Fund disclaims any obligation to advise investors of such changes. For the purpose of determining the Fund's holdings, securities of the same issuer are aggregated to determine the weight in the Fund. These holdings comprise the following percentages of the Fund's total net assets (including all classes of shares) as of 30 Sep 2020: DENTSPLY SIRONA Inc 5.7%, Cie Financiere Richemont SA 3.9%, Berkshire Hathaway Inc 5.6%, The Bank of New York Mellon Corp 3.8%, Samsung Electronics Co Ltd 4.9%, FedEx Corp 5.6%, Cognizant Technology Solutions Corp 5.7%, Citigroup Inc 3.9%. Securities named in the Commentary, but not listed here are not held in the Fund as of the date of this report. Portfolio holdings are subject to change without notice and are not intended as recommendations of individual securities. All information in this report, unless otherwise indicated, includes all classes of shares (except performance and expense ratio information) and is as of the date shown in the upper right hand corner. This material does not constitute investment advice.

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.

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Portfolio statistics are obtained from various data sources and intended to provide a general view of the portfolio, or Index, at a point in time. Artisan Partners excludes outliers when calculating portfolio characteristics and may use data from a related security to calculate statistics if information is unavailable for a particular security.

Price-to-Earnings (P/E) is a valuation ratio of a company's current share price compared to its per-share earnings. **Free Cash Flow** is a measure of financial performance calculated as operating cash flow minus capital expenditures. **Correlation** is a statistical measure of how two securities move in relation to each other. A perfect positive correlation is represented by the value +1.00, while 0.00 indicates no correlation and -1.00 indicates a perfect negative correlation. **Earnings per Share (EPS)** is the portion of a company's profit allocated to each outstanding share of common stock. **Normalized Earnings** are earnings that are adjusted for the cyclical ups and downs over a business cycle. **Tangible Book Value** is a measure of a company's shareholder equity after removing any intangible assets. **Market Cap** is the aggregate value of all of a company's outstanding equity securities. **Operating Profit Margin** is a ratio used to measure a company's pricing strategy and is a measurement of what proportion of a company's revenue is left over after paying for variable costs of production such as wages, raw materials, etc.

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A R T I S A N  P A R T N E R S

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