Artisan Select Equity Fund

QUARTERLY
Commentary

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

As of 31 December 2021

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
Portfolio Manager
Managing Director

Investment Results (%)

As of 31 December 2021	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception
			Average Annual Total Returns				
Investor Class: ARTNX	**3.18**	**15.33**	**15.33**	—	—	—	**19.63**
Advisor Class: APDNX	**3.25**	**15.50**	**15.50**	—	—	—	**19.72**
Institutional Class: APHNX	**3.24**	**15.53**	**15.53**	—	—	—	**19.81**
S&P 500® Index	11.03	28.71	28.71	—	—	—	31.74

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
Annual Report 30 Sep 2021[1]	4.35/1.25	4.83/1.15	1.56/1.10
Prospectus 30 Sep 2020[1,2]	17.97/1.26	9.67/1.16	2.37/1.11

[1]Net expenses reflect a contractual expense limitation agreement in effect through 31 Jan 2023. [2]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.

Market Overview

Asset prices continued their upward push in the fourth quarter. International developed markets (as measured by MSCI EAFE Index) inched up 3.9% in local currency and 2.7% in US dollars as foreign currencies continued to weaken versus the US dollar. The US market (as measured by the S&P 500® Index), on the other hand, did much better, registering a gain of 11% for the quarter. The full year saw a similar divergence, with the S&P 500® Index up 28.7% and MSCI EAFE Index up 11.3% in USD. The US is the most expensive of all major equity markets by a long shot, and the S&P 500 is essentially a growth stock index at this point and MSCI EAFE Index essentially a value index. International stocks are significantly more attractively priced than US equities—the S&P 500® Index trades at more than 21X forward earnings, while MSCI EAFE Index sells at 15X earnings. Note that these estimates understate the valuation spread. US companies have significant equity compensation expenses, and most earnings estimates strip these charges out of the earnings, which understates the multiple of earnings. International companies have no such adjustment as equity compensation is for them largely de minimis.

Some varied and at times contradictory plot lines are running through the market. The Federal Reserve (Fed) jettisoned its "transitory" description of inflation as it is now clearly well established and unlikely to reverse any time soon. The unprecedented stimulus passed under both the Trump and Biden administrations has not yet fully worked its way through the economy and is arguably a repository of untapped inflationary pressure. For example, American consumers have about $2 trillion sitting in their checking accounts. Many have paid down debt and are in robust financial condition. Other factors favoring inflation include energy policies as political and regulatory regimes across much of the developed world aim to lower carbon emissions by reducing oil and gas production. This is perhaps a laudable policy position except there is no viable cost-effective alternative source of energy—except nuclear, which is verboten. Fans of political theater will have noted the Biden administration's support of a new Russian gas pipeline while at the same time killing the Keystone pipeline at home. Biden also called for the Organization of the Petroleum Exporting Countries (OPEC) to increase oil production in order to drive down prices while at the same time making it harder to increase domestic production. Presumably the environment does not care whether carbon is emitted in Saudi Arabia or Schenectady. (Note that the United States is the single largest producer of oil and gas in the world.) Perhaps we can coin a political version of the old tourist trope, "What happens in Vegas, stays in Vegas," but we admittedly struggle with the rhyme and meter. "Oil and Gas for Tyrants but not for Texas" just does not have the same ring. Theater indeed. At the World Petroleum Congress in December, Saudi Aramco CEO Amin Nasser pointed out the obvious: "I understand that publicly admitting that oil and gas will play an essential and significant role during the transition and beyond will be hard for some. But admitting this reality will be far easier than dealing with energy insecurity, rampant inflation and social unrest as the prices become intolerably high and seeing net zero commitments by countries start to unravel." As we write, UK Prime Minister Boris Johnson is facing calls to do something about soaring home heating bills. Increasing the supply of cheap energy is not on the menu of options.

In any event, the inflationary environment means that interest rate expectations are firmly moving up. This should in theory be bad for highly priced information technology shares as well as interest rate sensitive, income-oriented shares such as utilities and real estate. And yet these sectors were some of the best performers during the quarter. Apple, Microsoft and Tesla accounted for more than 25% of the S&P 500® Index's total return. They sell at an average of more than 60X earnings. We saw the market crowd into expensive technology shares at the beginning of the pandemic as the economy collapsed and earnings stability became highly prized. And we just saw the same thing happen again near the end of the pandemic as the furious spread of the mild omicron variant puts us on the cusp of COVID-19 going endemic.

But stocks can certainly zig when we think they should zag. Tesla is perhaps the quintessential example. Many a value investor has declared Tesla the ultimate overvalued stock, and yet fortunes have been obliterated on the short side of this trade for years. The stock rose 36% in the quarter and 50% in the past year. But facts are instructive, if not ultimately predictive. The market cap and the enterprise value (EV) are both about $1 trillion. Tesla is barely profitable and sold a little over 900,000 vehicles in 2021. Let's assume that number triples in short order to 3 million cars, and let's also assume that it generates strong operating profit per vehicle of $3,500, equal to what luxury car maker Mercedes Benz has earned over the last several years. Those assumptions put the stock at an EV/EBIT of 95X. Not cheap enough for Tesla bulls? Let's assume Tesla takes 100% of the global auto industry, selling 70 million units per year and earns that same luxury margin of $3,500 per car, which is multiples of what the industry overall earns per car. That would generate about $245 billion of operating profit, putting EV/EBIT at 4X or about 5-6X after tax earnings at some distant point in the future; after all, it should take Tesla at least a decade to put the rest of the industry out of business. Meanwhile, legacy auto original equipment manufacturers (OEMs) currently trade at around 5-6X THIS YEAR'S earnings. So, if Tesla takes over the entire world production of automobiles and earns multiples of what the industry earns on a per car basis, it is about fairly valued before adjusting for the time value of money. Mark us firmly in the skeptic's camp. But time will tell.

Portfolio Discussion

Our top-performing stocks this quarter were Anthem, Advance Auto Parts and Axalta Coating.

Anthem was extremely undervalued when we purchased it in 2019. Part of the undervaluation was due to fears that a Democrat-controlled government would threaten the private health insurance business model. Remember, 2019 was the run-up to the presidential election, and Democrat candidates such as Bernie Sanders were proposing extreme changes to the health care system, including expansion of government-funded health care that would threaten

private insurance. We believed that revolutionary changes to the system were almost impossible. Campaigns are about unrealistic promises, and governing is about legislative realities. Post-election, legislative realities settled in, and radical changes to the system evaporated. Second, Anthem traded at a discount to an already attractively priced industry, and we felt the valuation gap could narrow. Anthem's discount was based on its strong position in the commercial sector, which had been relatively mature, as well as its fairly small position in the growing Medicare Advantage and Medicaid markets. We felt that under the leadership of CEO Gail Boudreaux, Anthem could leverage its strengths as the dominant Blue Cross provider to expand in the government market. Additionally, the pandemic created uncertainty surrounding the industry's near-term earnings prospects given elevated mortality and health care system costs. Anthem has navigated the pandemic extremely well, demonstrating the flexibility of the managed care financial model. This truly is a wonderful business. In addition, Anthem has demonstrated accelerating growth in its government business and has also shown some positive trends in the commercial business. The stock rose 25% in the quarter and nearly 50% for the year.

Advance Auto shares rose 15% for the quarter and 55% for the year. Advance Auto operates in the attractive automotive parts and accessories business alongside O'Reilly and AutoZone, the two other major national chains. This is an attractive industry driven by the number of cars on the road, the age of the cars and the miles driven. These larger national chains also benefit from the steady migration of share from smaller, scattered players. These positive industry dynamics have translated into attractive top-line growth and strong margins and returns on capital for many years—for O'Reilly and AutoZone but less so Advance Auto. Advance has consistently underperformed its main peers, partly due to its business mix but largely due to poor operational execution related to supply chain and operating fundamentals. The current CEO Tom Greco joined in 2016 and has been laying the foundation required to close the operating gap with its peers. We are seeing strong evidence that the gap is closing and Advance shares have responded. In addition, the backdrop for continued robust demand is encouraging. Miles driven is rising and the car park is aging, both of which bode well for car part demand.

Axalta shares rose 13% this quarter. We added this company to the portfolio last quarter. Second-quarter results were mixed but promising. The top line grew, although operating profits were down significantly because of cost inflation running just north of 20%. This is a business with strong pricing power, and management believes they will fully offset cost inflation by early 2022. They also believe that they can hold onto pricing gains if/when raw material prices decline. Additionally, a meaningful rebound in their Automotive OEM paint business is likely given that auto production levels remain depressed. We believe the company can achieve EPS of close to $3.00, putting the stock on a multiple not quite half that of the market.

Our worst performing stocks this quarter were Alibaba, Citigroup and HeidelbergCement.

Alibaba shares declined 19% during the quarter. The company reported disappointing earnings with anemic revenue growth and declining profits. And noise around adverse regulations continued in China and the US. While these issues are real, there is simply no fundamental way to explain the share decline during the quarter, with the valuation falling to almost comical levels. Excluding cash, investments and its cloud business, we estimate the shares bottomed in December at ~4X earnings.

Given the magnitude of the share price decline, we undertook a re-underwriting of this investment to ensure we had not missed anything. Our conclusion remains the same. The company enjoys dominant market positions in China's e-commerce and cloud markets, both of which are poised for attractive long-term growth. The balance sheet strength is exceptional, with cash and investments close to 40% of the market cap. We have never seen a company with this level of competitive strength, business quality, and financial strength trading at what can only be described as a distressed valuation.

In December, we wrote a letter to management urging it to take actions to support the share price. While the regulatory issues and weak macro environment are largely out of its control, management needs to do better in other areas.

The primary way is to provide more details on its investment spending. Over the past 12 months, the run rate for the operating losses on its "investments" has ballooned from ~$4 billion to ~$12 billion. This is an extraordinary number. For context, the losses on Google's Other Bets (which include self-driving car business Waymo) are ~$5 billion per year. The investments have placed an enormous burden on Alibaba's profitability. We estimate that the investment spending will reduce operating profit this year by over 40%. Said another way, the underlying profits should be 70% higher. To compound the issue, Alibaba's management has failed to provide any adequate framework or guideposts that would allow investors to quantify the limits of the investments or measure their financial success. As a result, we believe the market is capitalizing these losses into perpetuity, which is creating a negative value in the ~$130 billion range, or roughly 35% of the current market value. Note that our valuation fully embeds those losses and does not assume they diminish.

We have also urged management to take advantage of this dislocation in the share price to create value for the shareholders. The company is in an enviable position of having a portfolio of largely independent businesses, a large investment portfolio and a large pile of cash. This gives management plenty of options to create significant shareholder value through a variety of corporate actions. Alibaba has been buying back shares, but we believe it can be more aggressive.

We look forward to establishing a dialogue with the company on these issues.

Citigroup's share price declined 13% during the quarter. Third-quarter results were fine. Pre-provision profits were essentially flat. Its large consumer credit card business is struggling as consumers are flush with cash and are paying down their revolving debt. We expect the cards business to start growing again as the economy normalizes. The institutional side of the business is doing well. Credit quality is outstanding, and Citi released credit provisions taken during the crisis. Return on tangible equity was double digit, and the share count fell 5% as management returned cash to shareholders. The relatively new CEO, Jane Fraser, is examining the portfolio and will soon hold an investor day. Disposals are on the table as are other strategies to narrow the ROE gap with peers. We will learn more at the upcoming investor day.

HeidelbergCement shares declined about 10% during the quarter. Third-quarter results were meaningfully impacted by inflation. While revenue rose 4%, EBITDA declined 11% as costs, particularly energy costs, rose from last year. This raised concerns as to whether Heidelberg will be able to offset inflationary pressures with strong pricing. We think that they will though likely with a lag. It is important to point out, however, that current year results are compared to an extraordinarily robust performance last year. In 2020, Heidelberg reported the highest EBITDA margins in our model, which goes back to 2012. Even with rising energy costs this year, we believe that Heidelberg will report EBITDA margins firmly above 20%, which is a strong performance relative to the last decade. Moreover, the valuation of Heidelberg reached extreme levels. The shares ended the year at about 7X earnings and yielding almost 4%. We have added to our position.

We added Alleghany Corporation to the portfolio during the quarter. Alleghany is an unusual company in that it is primarily a re-insurance company but operates more like a publicly traded family office. It invests excess capital from the insurance business into equities and also owns a portfolio of small industrial businesses. The business is managed conservatively by a group of managers who think like owners. Their incentives are sensible and aligned with value creation over time. In many ways, the company is a small version of Berkshire Hathaway, as it has a long-term outlook with little concern about Wall Street. Indeed, Alleghany's CEO was formerly the head of Berkshire's general re-insurance unit.

We find this company attractive based on its valuation and outlook. Alleghany targets 7%-10% growth in book value over a business cycle, although it has achieved below target over the past five years. The primary headwind was the difficult insurance market, where most re-insurance companies (including Berkshire Hathaway) suffered larger than normal catastrophic losses. This is poised to change as premiums are rising. While Alleghany did not benefit from the premium increases in 2020 or 2021 due to the pandemic, we expect good growth in underwriting profits to start this year.

Another tailwind is from a change in how the company manages its investment portfolio. Some investing missteps were made in the past, but Alleghany seems to have found a strategy that should yield better results. Similar to Berkshire, it invests in private companies. The profitability of these industrial companies has significantly improved over the past few years, and management expects it to continue. Several larger investments have record backlogs and good growth outlooks.

All together, we believe that Alleghany is likely to grow book value above its 7%-10% target for the next few years. Excluding the value of its private investments, we believe we paid <1X book value for the insurance business, which we view as an attractive entry price given the prospect for above-average growth in the near term.

"When you come to a fork in the road, take it."
—Yogi Berra

We both had the same thought somewhere in the middle of the fourth quarter: *the stock market and our portfolio are leading separate lives*. It seemed like the index was reaching new highs most days. Our portfolio struggled versus the bubbly market. The exuberance reflected in the share price of Tesla (see above) was matched only inversely by the deflating share price performance of HeidelbergCement and Citigroup, for example, both of which trade at single digit P/E multiples. While Tesla's share price suggests that it will not only take over the car industry in this universe as well as those in parallel universes, the share prices of HeidelbergCement and Citi suggest that they will not have much of a business left in just a few years' time.

Indeed, the valuation gaps between our portfolio and the S&P 500® Index, the MSCI ACWI Index and even MSCI EAFE Index are notable. By our estimates, our portfolio is trading at about 13X forward earnings. That compares to the S&P 500® Index at more than 21X, MSCI ACWI Index at 18X and MSCI EAFE Index at 15X. And our portfolio is not a collection of low-quality assets. Our companies are well capitalized; in most cases they are industry leaders and generate good returns and cash flow. Many of them are well positioned to generate above-average growth. Moreover, the discounted valuation of the portfolio is not derived simply from one or even two industries. We have extremely cheap stocks in the financials sector—Citigroup at 6X earnings and BNY Mellon at around 12X. We have one of the world's leading coatings businesses (Axalta) at around 10X. HeidelbergCement is one of the leading owners of aggregate reserves. Aggregates sell on the US stock market at more than 25X earnings, but on the German exchange you can have them at 6-7X. Alibaba is the world's leading e-commerce business and traded in December at about 4X earnings before interest, a valuation that suggests an extreme level of distress. We could go on. Suffice it to say that the discount to intrinsic value of the portfolio is attractive, diversified across industries and of a high quality. We aggressively increased our personal investments in the US mutual fund during the quarter.

We want to close with a few words about our performance. Since inception, we have generated a return of 19.6%. This is an excellent absolute return by any measure. However, it suffers greatly by comparison to S&P 500® Index, which generated a return of 31.7% over the same period. Our underperformance is not a function of what we owned (i.e., mistakes) but rather what we did not own—information technology and energy. Information technology was almost 30% of the index and returned 35% in 2021. In comparison, our weighting in the sector was barely 9% because we did not find many companies with compelling valuations. Energy was about 3% of the index and returned 55% in 2021. We did not own any names in the sector as we found business quality to be lacking. Our weightings in these sectors are entirely consistent with our style of investing and should not be surprising. Moreover, with a portfolio of about twenty names, we will never look like the market, and at times, our performance will diverge wildly from it.

Consider our international exposure. We have taken advantage of the extreme valuation disparity between US and non-US names to build a sizable non-US exposure. Samsung Electronics trades at about 10X earnings. Danone trades at about 13X. HeidelbergCement trades at about 7X earnings. BAE Systems trades at a more than 30% discount to US listed defense contractors. Alibaba is likely the cheapest e-commerce business in the world by a long shot. These depressed valuations suggest strong future returns. As we noted above, we have added aggressively to our holdings based on the valuation levels we see in the portfolio, both on an absolute and a relative basis.

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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.

S&P 500® Index measures the performance of 500 US companies focused on the large-cap sector of the market. MSCI EAFE Index measures the performance of developed markets, excluding the US and Canada. MSCI All Country World Index measures the performance of developed and emerging markets. All single country returns are net returns based on MSCI country indices. 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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This summary represents the views of the portfolio managers as of 31 Dec 2021. 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 31 Dec 2021: Anthem Inc 6.3%, Advance Auto Parts Inc 4.4%, Axalta Coating Systems Ltd 5.2%, Alibaba Group Holding Ltd 4.4%, Citigroup Inc 4.8%, HeidelbergCement AG 4.7%, Alleghany Corp 0.6%, The Bank of New York Mellon Corp 4.9%, Samsung Electronics Co Ltd 4.7%, Danone SA 3.6%, BAE Systems PLC 1.8%; Alphabet Inc 4.9%, Berkshire Hathaway Inc 5.7%. 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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Free Cash Flow is a measure of financial performance calculated as operating cash flow minus capital expenditures. **Earnings Before Interest & Tax (EBIT)** is an indicator of a company's profitability, calculated as revenue minus expenses, excluding tax and interest. **Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)** is an indicator of a company's financial performance which is calculated by looking at earnings before the deduction of interest expenses, taxes, depreciation and amortization. **Price-to-Earnings (P/E)** is a valuation ratio of a company's current share price compared to its per-share earnings. **Forward Price-to-Earnings (P/E) Ratio** is a measure of the P/E ratio using forecasted earnings for the P/E calculation. The forecasted earnings used in the formula can either be for the next 12 months or for the next full-year fiscal period. **Return on Equity (ROE)** is a profitability ratio that measures the amount of net income returned as a percentage of shareholders' equity. **Enterprise Value (EV)** is a measure of a company's value. **Enterprise Value to Earnings Before Interest and Taxes (EV/EBIT)** is a valuation multiple defined as an enterprise value (EV) divided by earnings before interest and tax (EBIT).

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