Artisan US Focus Fund

QUARTERLY
Commentary

Artisan Partners Global Funds plc

As of 30 September 2020

For Institutional Investors – Not for Onward Distribution

Investment Process

Our investment approach is based on thematic idea generation, a systematic framework for analyzing companies and proactive risk management. Utilizing this approach, we seek to construct a focused portfolio designed to maximize alpha while limiting downside risk over the long term.

Thematic Idea Generation

We believe a key element in alpha generation is finding areas where our views on industry fundamentals differ from consensus estimates. In this pursuit, we seek to identify inflections in multi-year trends which may be caused by changes in supply/demand dynamics, societal behavior, market conditions, technology, laws/regulations and business models, among other variables. We believe these inflections are often misunderstood by market participants, and can lead to powerful re-ratings of industries and companies. Identifying themes helps us develop a focused universe of companies to analyze more thoroughly.

Systematic Analytical Framework

We apply a systematic framework for analyzing companies across sectors and themes, creating a repeatable and methodical decision-making process. Our proprietary company models focus on multi-year earnings power differentiation, expected outcome scenario analysis, return on invested capital and discounted cash flow valuations. Visual outputs are then produced through our internally developed technology solutions, allowing us to consistently evaluate positions across the portfolio.

Proactive Risk Management

We incorporate risk management into all stages of our investment process. Metrics evaluated include crowding, correlation, volatility, stress tests, liquidity, factor analysis and macro drivers, all of which inform portfolio construction and position sizing. We also use various instruments, such as options, in an effort to magnify alpha and minimize downside.

Team Overview

Portfolio Management

Christopher Smith
Portfolio Manager

Investment Results (%)

As of 30 September 2020	QTD	YTD	Average Annual Total Returns 1 Yr	3 Yr	5 Yr	10 Yr	Inception
Class I USD—Inception: 06 Dec 2018	**9.23**	**12.08**	**20.44**	—	—	—	**21.29**
S&P 500® Index (USD)	8.93	5.57	15.15	—	—	—	15.17

Annual Returns (%) 12 months ended 30 September

	2016	2017	2018	2019	2020
Class I USD	—	—	—	—	**20.44**

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

Past performance does not guarantee and is not a reliable indicator of future results. Performance is NAV to NAV, including reinvestment of dividends and capital gains, if any, and is net of fees and expenses, excluding any subscription or redemption charges which may be levied. At the moment, the Fund does not intend to charge subscription or redemption fees. The Fund may be offered in different share classes, which are subject to different fees, expenses and inception dates (which may affect performance), have different minimum investment requirements and are entitled to different services. An investor cannot invest directly in an index.

Performance commentary is provided in relation to the Fund's USD share class.

Investment Risks: Investments will rise and fall with market fluctuations and investor capital is at risk. Investors investing in funds 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 last page, which should be read in conjunction with this material.

Performance Discussion

As a team, we remain committed to delivering superior risk-adjusted returns through a variety of market conditions. The first three quarters of 2020 have certainly been a good litmus test, and our results have demonstrated our ability to effectively navigate these turbulent times. For the quarter ended September 30, 2020, the Artisan US Focus Fund (Class I USD) returned 9.23% vs. 8.93% for the S&P 500® Index. This brings our YTD total to 12.08% vs. 5.57% for the S&P 500® Index. Consistent with our history, relative returns were driven by strong security selection as well as sector allocation. Our top individual contributors in Q3 were diverse from a theme standpoint, with representation from three of the portfolio's largest themes. All our current themes contributed positively to returns—with notable strength in transformation of the enterprise, network infrastructure modernization and digitization of commerce.

Investing Environment

One of the questions we've received frequently throughout 2020 is, "Have you raised your valuation multiples to reflect the Fed-induced low interest rate environment in the US?" While this has been a source of considerable debate within the investment community, we have not significantly raised our target price valuation multiples. This decision is the result of our research which suggests that making material changes to valuation multiples to reflect lower interest rates is potentially risky for three reasons.

First, the range of potential valuation outcomes becomes very wide as interest rates near zero. Mathematically, a valuation multiple is a shorthand version of a discounted cash flow (DCF) analysis, so raising a valuation multiple implies the underlying DCF value is higher too. Using DCF analysis on a hypothetical growth stock, we've estimated that the present value may increase approximately 20% if interest rates fall from 5% to 4%, but if interest rates fall from 1% to 0%, the present value may rise more than 100%. Directionally, the story is the same for a hypothetical value stock, but the magnitude is much lower. This math demonstrates why valuation bubbles may form as interest rates approach the zero-bound, particularly for growth stocks, and helps explain why the NASDAQ has significantly outperformed this year. Our investment process is rooted in objective decision-making linked to quantifiable research differentiation, so we don't want to add a material layer of subjectivity to our price targets by constantly adjusting the interest rate in our DCF analysis, particularly now that interest rates are approaching zero and the valuation impact of even a small miscalculation is tremendous.

Second, large increases in present valuation are only justified to the extent that low interest rates are expected to persist forever. While we recognize low rates currently prevail, our conviction that they persist into the future is low because history shows there is no "steady state" for interest rates. Over the last century, we have seen yields on the 10-year Treasury rise from 2% to nearly 16%, only to fall below 1%, where they currently sit. History has proven even long-duration interest rates can change dramatically over time, so we don't feel it's sensible to project today's extreme rate level into perpetuity for valuation purposes.

Third, lower for longer interest rates may have negative implications for long-term economic growth. In Japan for example, interest rates have remained depressed for nearly three decades, and over that time economic growth has been anemic. Given sustained low interest rates coincide with stagnant economic growth, it seems unlikely any business's long-term growth and return on capital trajectory would be unaffected in a world wherein interest rates are perpetually near-zero. This suggests lofty valuation multiples may not be warranted if interest rates remain low forever as perpetual growth rates likely need to be revised lower, even for companies growing strongly today. Said differently, stocks may not command a significantly higher valuation multiple, even if we accept low interest rates are here to stay, because the positive effect of lower interest rates will likely be mitigated somewhat or fully by the lower perpetual growth rates.

To summarize, we believe the bar for significantly expanded valuation multiples is much higher than many investors realize; as such, we have not adjusted our investment process to reflect the current low interest rate paradigm into perpetuity. Rather, our process is focused on finding stocks whose potential to re-rate is grounded in industry inflection points, accelerating revenue growth, quantifiable upward earnings revisions and sustained return on invested capital (ROIC) expansions—all of which make investors reevaluate and potentially revise higher the multiples they are willing to pay for a stock in the future on the basis of stronger industry and company-specific fundamentals.

Theme Developments

Across themes, the most notable change was the further buildout of our automation of the industrial complex theme. Given growth stocks' strength in 2020, we've sought to create a more balanced portfolio through increased exposure to cyclical areas of the market. Now the portfolio's largest theme, automation of the industrial complex focuses on logistical productivity as a result of technological advancements in automation and connectivity—a combination likely to lead to an inflection for old economy sectors and verticals. While investors have traditionally expected limited through-cycle growth from these segments, we believe increased efficiencies and better asset utilization should lead to lower capital intensity and higher returns on invested capital. On the frontlines of this change is the shipping and transportation industry. The COVID-19 pandemic has caused consumer expenditures to dramatically shift away from services and toward consumer goods, led by an increase in e-commerce activity. As a result, we've directed our exposure toward freight and parcel delivery companies, which are benefiting from a scarcity of delivery capacity in both express and ground networks. While some of this COVID-related tailwind is likely temporary, much of it will be structural as these businesses focus on pricing and internal optimization over market share—a dynamic

that should introduce opportunities for acceleration, earnings differentiation and multiple re-rating.

We have also introduced exposure to US freight-hauling railroads as part of this theme. Rails remain some of the most under-optimized assets in the world, and the old approach of maximizing individual train performance is being replaced by a network optimization approach known as precision scheduled railroading (PSR). With freight volumes expected to cyclically accelerate through the first half of 2021, record tightness in the truckload market should amplify pricing into 2021 for US railroads, further benefiting our position.

Portfolio Positioning

As of September 30, 2020, the portfolio consisted of seven themes. The largest themes by weight were automation of the industrial complex (21.9%), transformation of the enterprise (20.8%), network infrastructure modernization (18.5%), digitization of commerce (15.5%) and data monetization (15.5%). At quarter end, we held 33 companies, with the largest 5 holdings comprising 31.7% of the portfolio's net assets. Non-US companies comprised 7.7% of net assets, and the weighted average market cap of the portfolio was $266.2 billion.

Looking Ahead

We are very excited about our current portfolio—our price targets have compelling upside, not because we're relying on extreme valuation multiples to reflect a current or future zero-bound interest rate environment, but rather because we're employing our repeatable research process with gusto. History has taught us there are attractive risk-adjusted investment ideas to be found in any environment, even when portions of the market become bubbly or otherwise extreme—though sometimes, you have to work harder to find them. We pride ourselves on working as hard as it takes to deliver value to you, our partners.

Portfolio Exposure by Current Theme[1]

Themes	% of net assets
Automation of the Industrial Complex	21.9
Transformation of the Enterprise	20.8
Network Infrastructure Modernization	18.5
Digitization of Commerce	15.5
Data Monetization	15.5
Sustainable Retail Formats	7.5
Life Sciences	2.9
TOTAL	**102.6%**

Source: Artisan Partners. [1]% of net assets represents the portfolio's exposures based on the economic value of investments and options are delta-adjusted. Cash and cash equivalents represented 2.0% of net assets.

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Theme classifications are at the sole discretion of the team. Themes and constituents are as of the date indicated and are subject to change. Certain holdings have been reclassified subsequent to initial investment, which has impacted theme performance during the period.

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