Artisan Global Value Strategy

QUARTERLY
Commentary

As of 31 December 2018

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)

Justin V. Bandy, CFA
Co-Portfolio Manager

Michael J. McKinnon, CFA
Co-Portfolio Manager

Investment Results (%)

As of 31 December 2018	QTD	YTD	Average Annual Total Returns 1 Yr	3 Yr	5 Yr	10 Yr	Inception[1]
Composite — Gross	**-13.18**	**-12.02**	**-12.02**	**6.53**	**4.73**	**12.77**	**7.35**
Composite — Net	**-13.40**	**-12.86**	**-12.86**	**5.52**	**3.74**	**11.69**	**6.32**
MSCI All Country World Index	-12.75	-9.41	-9.41	6.59	4.26	9.45	3.28

Annual Returns (%) 12 months ended 31 December

	2014	2015	2016	2017	2018
Composite — Gross	**6.16**	**-1.83**	**11.32**	**23.47**	**-12.02**

Source: Artisan Partners/MSCI. Returns for periods less than one year are not annualized. [1]Composite inception: 1 July 2007.

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 second to last page, which should be read in conjunction with this material.

Market Overview

If something cannot go on forever, it will stop.
—Stein's Law

This quote from Herbert Stein—former chairman of the Council of Economic Advisors under President Nixon—is irresistibly apropos. Partly because of under whom he served (a controversial and unpopular president), but mostly because there is simply no better summation of the quarter.

The bull market that started in 2009 is currently the second-longest on record—two months shy of the 1990s super bull. Great stretches of it have been marked by remarkably low volatility. It seemed to go on forever. And then, it stopped. Asset prices across the board fell, including oil and commodities. Gold dusted itself off and moved in the opposite direction. Yet, there is no recession in sight. Corporate earnings are generally strong with the exception of a few pockets. Interest rates remain low by long-term historical standards, and inflation is under control—arguably too low in large parts of the developed world. Certainly, there are things to worry about—there always are. Today, they include: ongoing trade tension between the world's two largest economies; dysfunction in Washington DC, including the investigation that threatens the Trump presidency; the Brexit saga; the rise of populism in general; the economic and social disruption from the IT/industrial revolution; and so on. But none of these issues are new. And so it goes in the fickle world of investing. When the tide of optimism is rising, nobody worries about the sharp rocks underneath; and then suddenly everyone starts to worry—often at the same time.

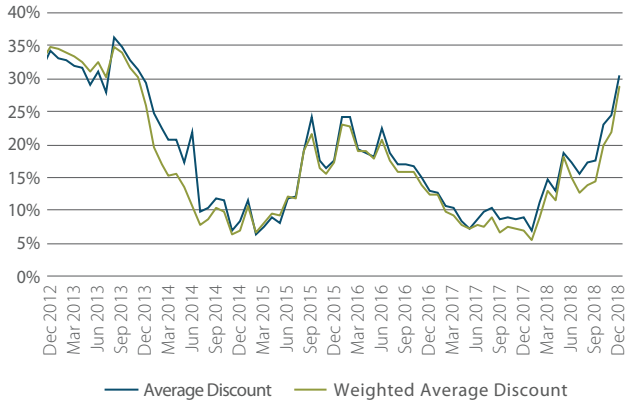
And boy, did they worry. From its peak on September 20 to the trough on December 24, the S&P 500® Index fell about 20%. So, too, did most European and developed markets. Almost all major stock markets ended the quarter and the year in the red by around 12%-15%. China was especially hard hit, down 19% for the year. This was one of the quickest and most severe selloffs we have ever seen.

Our readers know that we have been unenthusiastic about equities for some time. For years, we have noted in these pages that valuations were unattractive and the discount to fair value in the portfolio was at or near record lows. Indeed, one year ago, the discount to intrinsic value reached the lowest level of our investing careers—effectively zero. At that time, we said this:

While there are certainly some reasons to be hopeful about global growth, it is much more difficult to be optimistic about valuations. By almost any valuation metric, equities are at or above historical valuation averages—in some cases well above. The only debate on valuation is whether we are at dangerous levels or merely fair levels. All we know is that it is very difficult to find value in equities anywhere in the world.

Allow us to now revise our opinion: Stocks are cheap. At the end of Q4, the weighted average discount to intrinsic value reached 28.63%, the highest since 2013. We believe many of our holdings are already priced for recession or worse. If there is a recession, we believe returns over the long term should be decent from here; if there isn't, we think they are likely to be strong.

Exhibit 1: Discount to Intrinsic Value of the Artisan Global Value Strategy



Source: Artisan Partners. Intrinsic value estimates are subjectively determined by the Artisan Partners Global Value Team and are subject to change without notice. The discount to intrinsic value is based on the portfolio securities values as of the 1st business day of the calendar month.

Portfolio Discussion

Our portfolio suffered along with the stock market. During the quarter, only four stocks generated positive returns: Telefonica Brasil, Johnson & Johnson, Bharti Infratel and KT&G.

Telefonica was one of our worst performers in the prior several quarters. Brazil has struggled to recover from its worst recession on record, and its political system has been convulsed by corruption scandals and an inability to address structural fiscal challenges. A looming presidential election added uncertainty. That uncertainty was lifted in the fourth quarter with the election of Jair Bolsonaro. Bolsonaro is a right-wing populist with an undistinguished record as a congressman and a history of troubling views on women and military power. Yet, he has mostly sensible economic ideas compared to the alternatives. His election brings hope that there may finally be a path out of the long-running economic malaise that has gripped the country. The stock rose 24% during the quarter.

Bharti Infratel had a modest rebound after a significant decline in Q3. There was no new, meaningful information to impact our value estimate.

Both Johnson & Johnson and KT&G were up modestly in a down market as investors gravitated toward steady businesses.

Our largest detractors from performance were Baidu, Citigroup and Allergan.

Baidu declined mostly over fears of a Chinese slowdown. As the dominant Internet search engine in that country, a protracted trade war threatens the Chinese economy and therefore Baidu's near-term earnings. That being said, the business continues to perform strongly. Third quarter results were very good with both top- and bottom-line

progress. We took advantage of the stock price decline and added to our position at what we believe to be very attractive prices.

Citigroup declined along with most banks around the world. This was more a function of fear than reality. Citigroup's business continues to perform very well. The company just reported fourth quarter results, and while revenue was down very modestly due to lower fixed income trading activity, the rest of the business generated good results. Expenses are down. Credit quality remains strong, and return on equity is in the double digits. The balance sheet is strong and liquid, and the management team is returning significant amounts of excess capital to shareholders. The share price decline took the valuation down to about 8X earnings and 78% of tangible book value. We added to our position during the quarter.

Allergan sold off dramatically during the quarter as a result of a recall of one of its breast implant products in Europe. There appears to be a disagreement with the regulator over the information needed to renew regulatory approval, and the product had to be withdrawn. This product represents less than 1% of Allergan's revenue; however, the issue raised fears that there might be a significant product liability issue. With Johnson & Johnson's talc liability and Bayer's Roundup liability fresh in investors' minds, the mentality was: Sell first, ask questions later. There is no new evidence of any dangers associated with Allergan's breast implants. The risks of these products are well known, well disclosed and have long been viewed as acceptable relative to their benefits. In addition, the recall is only in Europe where product liability is a far smaller risk than it is in the US. Investors sold the stock down to what we believe to be a very attractive valuation, and we added aggressively to our holdings.

We were more active this quarter than we have been in years, and the portfolio evolved meaningfully. This is evident from a few different angles.

- Our cash position
- Greater concentration
- The source of the portfolio discount

First, our cash position declined from a high of 14.0% in February 2017 to 6.9% at the end of 2018. As I write this, it is below 6%. We significantly increased our stakes in two existing holdings: UBS Group and Richemont. UBS is a diversified financial services conglomerate and owns the world's leading wealth management franchise. Other activities include investment banking, asset management, and retail and commercial banking. As of September 30, 2018, UBS was priced at CHF15.50 per share and represented 2.5% of the portfolio. During the quarter, the share price collapsed, reaching a low of CHF11.75 or roughly 85% of book value per share and 8X earnings. Interestingly, UBS's valuation during the financial crisis bottomed at about the same price-to-book multiple. Yet, at the time the company was bleeding red ink (about $20bn worth from 2007 through 2009), was staggering under the weight of toxic assets and faced unknown legal liabilities. Today, UBS is profitable, well capitalized and pays a healthy dividend. Absent a financial crisis worse than that of 2008/2009, we can't arrive at fair value that justifies the current stock price. As a result, we aggressively acquired UBS shares during the quarter.

At the end of September, Richemont was priced at CHF80.0 per share and represented about 1.4% of the portfolio. The stock sold off dramatically during the quarter, reaching a low of about CHF60.9. Richemont is one of the world's largest luxury good companies, owning the jewelry brand Van Cleef & Arpels, as well as a number of the world's most valuable watch brands. Richemont is highly profitable, has a net cash balance sheet and at CHF60 per share trades for around 13X earnings. We estimate that the private market value of Richemont's brands is 25X earnings or more. We took advantage and roughly doubled our ownership stake.

We also added one new name which is now nearly a top-10 holding. Facebook is the world's leading social networking company through its ownership of Facebook, Instagram, WhatsApp and Facebook Messenger. It has about $42bn of net cash, is tremendously profitable and growing its revenue in the double digits. It trades for 14X earnings net of the cash. The attractions of this business are many. Digital advertising is the fastest growing part of the advertising pie, and Facebook (along with Alphabet, another portfolio holding) is a prime beneficiary of that growth. Indeed, Facebook and Alphabet are together collecting 100% of the incremental digital advertising growth. Facebook owns 3 of the top-10 apps in the country while Alphabet owns 5. There are 4 billion Internet users in the world, 3.2 billion social media users and 2.5 billion users of Facebook / Instagram / WhatsApp / Messenger. We could go on, but the point is clear: This is a powerful and growing platform with incredible scale and reach.

That's also the problem. Headlines have been screaming with political and popular criticism of Facebook—from concerns over "fake news" and the dissemination of "harmful" information over the network, to concerns over the use of private data. There have been congressional hearings and calls for regulation of Facebook—and even some calls for a break-up of the company. So far, none of these calls have coalesced into a coherent regulatory proposal; for now, they are merely reactionary. The only regulatory analog we have is the EU General Data Protection Regulation (EU GDPR). This recently enacted law in Europe is effectively a privacy bill of rights for the digital age. It is meant to protect consumers from privacy breaches, it requires user consent for the processing of private data, and it gives an individual the right to have all her data deleted. Thus far, the implementation of GDPR has been manageable for digital companies. Facebook user numbers took a slight step backward in Europe as some individuals opted out of social media. If such a law were implemented in the US, we think it would be similarly manageable. That being said, these pressures are the reason we were able to acquire our shares at attractive prices. Prior to our investment, Facebook announced a number of initiatives to address public and political criticisms. These investments will weigh on the margin, and we expect them to help alleviate some of the criticism.

Second, the portfolio has become more concentrated. At the end of 2017, we held 52 companies. Today we hold 45 stocks, representing 43 companies. (We own two different share classes each of Alphabet and Hyundai Motors.) As the market sold down, we exited positions with modest discounts and focused our capital in fewer, more meaningful positions. During the quarter, our exit/entry ratio was four to one: We sold out of four holdings and acquired only one. We view this as a positive development.

Disposals during the quarter included: Carlsberg, Johnson & Johnson, Naver and LafargeHolcim. Carlsberg and Johnson & Johnson were sold because they reached our estimates of intrinsic value. Both Naver and Lafarge were sold because of higher quality-adjusted returns available elsewhere.

Third, the source of the portfolio's discount is now better spread across industries. For much of 2016 and 2017, the most undervalued stocks within the portfolio were banks. At the market peak, they appeared to be the only companies at modest valuations. That is no longer the case. Indeed, the discounts of non-financial names rival those of our financial holdings. And our recent activity reflects this: During Q4, we committed significantly more capital to non-financial names than financial names. Facebook, Allergan and Dentsply Sirona are all now meaningful positions added over the past few quarters.

We close this quarter's letter where we started: Stocks are cheap. A review of our top-10 holdings shows a collection of industry-leading, highly profitable businesses with strong balance sheets. After the fourth quarter selloff, they are trading collectively at about 10X next year's earnings. We find that very attractive—something we haven't been able to say for quite some time.

For more information: Visit www.artisanpartners.com

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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. MSCI All Country World ex USA Index measures the performance of developed and emerging markets, excluding the US. S&P 500® Index measures the performance of 500 US companies focused on the large-cap sector of the market. 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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Price-to-Earnings (P/E) Ratio measures how expensive a stock is. Earnings figures used for FY1 and FY2 are estimates for the current and next unreported fiscal years. **Free Cash Flow** is a measure of financial performance calculated as operating cash flow minus capital expenditures. **Weighted Average** is the average of values weighted to the data set's composition. **Book Value** is the net asset value of a company, calculated by total assets minus intangible assets and liabilities. **Price-to-Book (P/B) Ratio** is a valuation measure used to compare a stock's market value to its book value. **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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A R T I S A N  P A R T N E R S

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Artisan Global Value Strategy

Quarterly Contribution to Return (%)

As of 31 December 2018

Top Contributors	Average Weight	Contribution to Return	Ending Weight
Telefonica Brasil SA	2.97	0.57	3.36
Bharti Infratel Ltd	1.05	0.06	1.16
Johnson & Johnson	1.05	0.05	0.00
Cash Holdings	8.74	0.04	6.93
DENTSPLY SIRONA Inc	2.42	0.02	2.88
KT&G Corp	0.92	0.01	0.99
Orkla ASA	0.39	-0.02	0.24
Carlsberg A/S	0.12	-0.03	0.00
Sodexo SA	1.65	-0.04	1.60
Hyundai Motor Co	0.83	-0.05	0.96
Nestle SA	1.70	-0.05	1.79
GlaxoSmithKline PLC	1.75	-0.06	1.66
IMI PLC	0.47	-0.07	0.49
Aon PLC	1.78	-0.11	1.77
LafargeHolcim Ltd	0.50	-0.11	0.00
NAVER Corp	0.22	-0.12	0.00
Advance Auto Parts Inc	1.93	-0.12	1.58
Marsh & McLennan Cos Inc	3.49	-0.12	3.58
Medtronic PLC	2.65	-0.20	2.68
The Bank of New York Mellon Corp	3.59	-0.24	3.72
ISS A/S	1.28	-0.25	1.10
Royal Bank of Scotland Group PLC	1.78	-0.26	1.80
Expedia Group Inc	2.13	-0.27	2.48
Groupe Bruxelles Lambert SA	1.65	-0.28	1.80

Bottom Contributors	Average Weight	Contribution to Return	Ending Weight
Baidu Inc	2.81	-0.96	2.68
Citigroup Inc	3.05	-0.87	2.87
Samsung Electronics Co Ltd	4.48	-0.75	4.41
Allergan PLC	2.15	-0.75	2.69
QUALCOMM Inc	2.71	-0.58	2.62
ABB Ltd	2.83	-0.57	3.04
Tesco PLC	2.50	-0.56	2.44
UBS Group AG	2.58	-0.56	2.96
FedEx Corp	1.48	-0.53	1.52
Oracle Corp	3.60	-0.43	3.64
Yahoo Japan Corp	1.24	-0.43	1.15
Imperial Oil Ltd	1.99	-0.42	1.79
United Technologies Corp	1.63	-0.42	1.55
Fluor Corp	0.72	-0.40	0.59
Facebook Inc	1.82	-0.39	2.82
Lloyds Banking Group PLC	2.64	-0.38	2.60
Cie Financiere Richemont SA	2.04	-0.36	2.74
Arch Capital Group Ltd	3.13	-0.30	3.25
American Express Co	2.74	-0.30	2.41
Bankia SA	1.03	-0.29	0.99
Alphabet Inc	2.27	-0.29	2.47
NXP Semiconductors NV	2.17	-0.29	2.77
ING Groep NV	1.57	-0.28	1.69
The Progressive Corp	1.79	-0.28	1.73

Source: Artisan Partners/FactSet. **Performance is historical and is not a reliable indicator of future results.** As of 31 Dec 2018. These investments made the greatest contribution to, or detracted most from, performance during the period based on a representative account within the strategy Composite. Upon request, Artisan will provide: (i) the calculation methodology and/or (ii) a list showing the contribution of each holding to overall performance during the measurement period. Securities of the same issuer are aggregated to determine the weight in the portfolio. % Contribution to Return is calculated by FactSet by multiplying a security's weight in the portfolio by its in portfolio return for the period referenced and does not take into account expenses of the portfolio. Purchases/sales are accounted for by using end of the day prices, which may or may not reflect the actual purchase/sale price realized by the portfolio.