



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 (% USD)

As of 31 December 2019	Average Annual Total Returns						
	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception ¹
Composite — Gross	8.19	25.41	25.41	10.86	8.28	11.93	8.69
Composite — Net	7.94	24.24	24.24	9.81	7.25	10.86	7.65
MSCI All Country World Index	8.95	26.60	26.60	12.44	8.40	8.78	4.98

Annual Returns (% USD) 12 months ended 31 December

	2015	2016	2017	2018	2019
Composite — Gross	-1.83	11.32	23.47	-12.02	25.41

Source: Artisan Partners/MSCI. Returns for periods less than one year are not annualized. ¹Composite 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 near the back of this document, which should be read in conjunction with this material.



Market Overview

Stocks had a great year and a great quarter to finish it off. Most developed world stock markets were up between 20% and 30% for the year and up high single digits to low double digits for the quarter. Emerging markets also did well though generally rose less than developed markets counterparts. These returns are particularly notable given 2019's events: Free trade—a central pillar of economic prosperity for decades—was under attack on multiple fronts, including the Trump/China trade war and Brexit in the UK. The trade policy uncertainty worldwide drove the purchasing managers' index (PMI—a proxy for manufacturing activity) to its lowest level since the 2009 crisis. Recession concerns throughout the year proved ultimately unfounded as US consumer strength offset weakness in the manufacturing sector. Bond yields, which dove to record lows during Q3, rose in Q4 as confidence returned.

While great for almost all investors, the year served some better than most. As we have written throughout 2019, there is a great divergence between growth and value investing performance. Value indices underperformed growth indices by more than a quarter in most instances for the year. And while there was talk of a value resurgence in Q4, there was little evidence of it in the index data, with growth indices continuing to meaningfully outperform.

We cannot close on 2019 without a nod to the break-out investing theme of the year: responsible investing, or ESG (environmental, social and governance). ESG is not new—it has been a topic of discussion for investors and corporations for a few years—but this year it reached critical mass. What was only an occasional topic in earnings calls and corporate strategy presentations is now virtually omnipresent. Many companies now have dedicated ESG investor relations staff. Data providers such as Morgan Stanley and Sustainalytics are now publishing ESG scores for companies—much like bond ratings or sell-side stock ratings—and demand for these ratings is growing rapidly. ESG considerations are now becoming components of executive compensation. And assets are literally flooding into ESG-themed investment vehicles, growing at a 70% annual rate for the last five years.

A couple of things help explain it. Concerns over global warming are mounting. Since her provocative address at the UN, Greta Thunberg has become practically a household name, and worldwide climate activism is boiling up in her wake. In her home country of Sweden, air travel is now on the decline as a result of citizens' efforts to reduce their carbon footprints. We don't think we have ever seen miles flown decline except in years of recession. Combine this activism with the speed and power of the Internet and the smartphone, and you have the makings of unprecedented power in the hands of individuals to shape the public narrative. And that power is echoing in board rooms. How many products or advertising campaigns can you think of that have either been pulled from the shelves, so to speak, or flown off the shelves because of Internet opinions spreading like wildfire?

The investment business is not immune to these pressures. Clients are increasingly urging consideration of environmental and social factors in investment decisions. Calls to divest from fossil fuels, to use less plastic or to reduce carbon footprints are becoming commonplace. In short, companies are being told to not simply focus on making profits, but to focus on doing "good." As we write, Blackrock, one of the world's largest asset managers, announced it will make sustainability an integral component of portfolio construction and risk management. Milton Friedman's maxim that "the social responsibility of business is to increase profits" is under its first serious and sustained attack.

We are of course engaged with this issue of responsible investing. It is an increasing topic of conversation with clients—and we expect it will continue to be for some time. Lest anyone think this is an easy topic with clear-cut answers, we leave our readers with a simple question: What is the meaning of "responsible"? Ask five people that question, and we suspect you will get five different answers. And we wonder, particularly if it's their own money at stake, whether the only answer five people might agree on is the one Milton Friedman offered more than 50 years ago.

Portfolio Discussion

We were quite active during the quarter and added three new names to the portfolio.

Carnival Corp is the world's largest cruise ship operator. There are only three scale operators which together account for about 80% of global cruise capacity. Carnival is more than twice as large as the next operator, Royal Caribbean, and about four times as large as the number three player, Norwegian. The industry is similarly consolidated on the ship manufacturing side, making it virtually impossible for new entrants to disrupt the industry.

This is a growth industry. Cruising is a tiny percentage of the overall travel industry and is taking share. The travel industry itself grows faster than the overall economy. Depending on the country, only 3%-5% of the population cruises every year. Rising penetration is driven by a few factors. First, cruising represents tremendous value. Compared to land-based vacations, a cruise is anywhere between 20%-40% cheaper on average. Second, the demographics favor it. Older people generally cruise more, and retirees are the fastest growing demographic around the world as the population ages. But younger people are also starting to cruise more because of the value it represents and the ability to experience international travel. Millennials are the fastest growing segment of the cruising population.

We can see this growth in the industry capacity figures. Over the past five years, each of the three main players grew capacity by double digits, while at the same time increasing yields (per person, per-day pricing) and maintaining occupancy rates over 100%. The addition of new capacity is creating new demand. This capacity growth is set to continue, with each of the three operators adding capacity at a

minimum mid-single digit annual rate for the next few years. And this capacity growth is being financed on attractive terms. Because of the national importance of shipbuilding to the manufacturers' home countries, cruise ships are financed with long-term, long-cost export financing. Carnival also has the best balance sheet in the industry by far. Its net debt is equal to about 3X EBIT, but because it pays no income taxes (a function of generating profits in international waters), its tax-adjusted leverage is comparable to 2X for a normal tax-paying company. In effect, Carnival is financing 30-year ship assets with about one-third equity and two-thirds debt.

New industry capacity is structurally more profitable than existing capacity, which should serve to drive up returns on capital. New ships are 30% more fuel efficient than older ships. They have better layouts which drive higher ancillary revenue. They are more efficient users of labor. Each of the three companies' management teams is incentivized on return on capital, and returns have been rising across the industry over the last several years. We expect this to continue.

Carnival's stock price has been clobbered—falling from a high of around \$70 down into the \$40s, where we purchased our shares. Our entry price represents a multiple of about 10X earnings. There are a few factors that have weighed on the shares. The US government changed its policy toward Cuba, effectively shutting down a very profitable itinerary for Carnival. Economies in Europe, particularly Germany, Spain and Italy, have weakened, which has hurt yields in those areas. The oil price has also risen, which pressures Carnival's costs—at least unless the price falls again. As a result, investors came into the year expecting Carnival to grow earnings at double digits, and they now expect earnings to be about flat. The PE has fallen from mid/high teens to barely double digits. We find the valuation very attractive for an industry leader in a business that can grow meaningfully for many years.

HeidelbergCement (HEI) is a name that some of our clients may remember. We owned the stock from 2010 to 2013. HEI is the world's largest aggregates company, its second-largest cement company and its third-largest maker of ready-mixed cement (RMC). It is weighted roughly 30% emerging and 70% developed markets, with its largest exposures by far in the US and Western Europe.

The main attraction to HEI is the aggregates business, where it is the global leader. This is a valuable business—aggregates are heavy, do not travel far and are essential for ready-mix cement. New permits to mine aggregates are difficult to get approved. These factors create scarcity and therefore significant pricing power for aggregates owners, explaining why aggregate assets trade at very high multiples in both public and private markets. Take as examples Vulcan Materials and Martin Marietta—the two largest publicly traded aggregates companies in the world. They trade for 13X-15X EBITDA and about 30X earnings. Compare this to HEI's current valuation of under 7X EBITDA and about 10X earnings and 10X free cash flow. Indeed, apply Vulcan and/or Martin Marietta multiples to HEI's North American aggregates, and you have about \$16bn of value. The entire enterprise

value of HEI is about \$25bn. The North American aggregates business is therefore worth about 65% of the company's total enterprise value and yet contributes only about 23% of the group's EBITDA. Assuming similar valuation multiples for all of HEI's aggregates—not just North America—yields value equal to more than 80% of the enterprise value. And aggregates in total is only 30% of the group's EBITDA. This implies absurd values for the remaining cement and ready-mix businesses.

There are other considerations. Aggregate volume demand in North America has bounced off the post-financial crisis lows of 2011 but is still below pre-crisis levels. Indeed, aggregate demand in the US public sector has been essentially flat for 20 years, reflecting what is commonly referred to in the US as the infrastructure deficit. Some expect the need for infrastructure investment to drive aggregate volumes higher in the future. There is some evidence this is happening at the state level already.

In Western Europe, cement markets remain depressed post-financial crisis. Volumes are well below peak—capacity utilization is in many cases 60% or less—and pricing has only recently shown some signs of recovery. This point on pricing is a key one. The EU CO2 trading scheme is partly to blame for the low capacity utilization. Producers were awarded CO2 credits based on much higher pre-financial crisis volumes, which incentivizes over-production since CO2 credits can be sold and converted into cash. However, starting in January 2021, credits will reflect actual production in the 2016-2018 period. This change is expected to drive long-awaited capacity rationalization, which is supportive of stronger pricing. Prices in some areas have already started rising in anticipation.

Finally, HEI has been generating strong free cash flows and rapidly deleveraging in the wake of its 2016 acquisition of Italcementi. The company should hit its leverage target within the next few quarters, at which point we expect it will increase returns to shareholders.

Anthem is another new old name we have owned in the past (via an investment in Wellpoint, which merged with Anthem in 2004). As an independent licensee of the Blue Cross and Blue Shield Association, Anthem is one of the largest managed care health insurers in the US with approximately 40 million members. It has strong brand awareness and a long brand history. Approximately 30 million of its members are commercial clients (individuals insured through employers) and approximately 10 million are members through government-funded programs such as Medicare and Medicaid.

Anthem is number one nationally in the commercial market with about 17% share of the 176 million Americans who hold private insurance. However, Anthem does not operate across all US regions. Within its 14 regional markets, it holds a larger, 35% share. Scale is an essential driver of value in managed care—it allows the creation of provider networks with the lowest cost and the ability to drive the best health outcomes for patients.

The commercial market population is not really growing. With the economy at or near full employment, there are not many new members to add to private insurance rolls. Moreover, there has been a negative mix shift in the commercial market for several years. Large commercial customers have been switching from fully underwritten insurance (where Anthem takes the underwriting risk) to self-insured programs where the commercial customer takes the underwriting risk and Anthem gets paid a servicing fee for managing access to its network (“administrative service only” or ASO). Revenue and margin dollars are lower for Anthem in the ASO business, but this mix shift has largely played out and should not be much of a headwind going forward.

However, there is population growth in the government marketplace. Both Medicaid and Medicare populations are increasingly outsourced to managed care organizations (MCOs). States have learned that by outsourcing the management of Medicaid beneficiaries to MCOs, they save money and significantly improve health outcomes. Today, Medicaid beneficiaries receiving benefits through MCOs account for 71% of total Medicaid beneficiaries but only 43% of total Medicaid spending. States continue outsourcing Medicaid populations to the private sector in order to generate savings.

Medicare is seeing a similar shift to the private sector through growth in Medicare Advantage plans. Currently about 34% of the Medicare population takes its benefits through Medicare Advantage plans administered by MCOs. These plans offer more benefits and better outcomes than do the Medicare fee-for-service plans. This is driving high single digit enrollment growth and therefore a significant growth opportunity for MCO companies.

The investment thesis for Anthem is based on a few considerations. Medical cost inflation continues growing faster than GDP, and we expect this to continue. This is a tailwind to Anthem’s premium revenue. We also see an opportunity to improve the operational performance of the commercial business under Gail Boudreaux, who took over as Anthem’s CEO in late 2017. Gail has two strategic goals in the commercial business. One is to increase the profitability of the ASO membership base by selling additional services. This includes selling pharmacy benefits management (PBM) services as well as increasing vision and dental insurance cross-selling. The second key initiative is to regain market share lost under the prior management team. Management argues that a broader product suite, better distribution and sales execution combined with its strong brand put the company in a more competitive position. It should be noted that Gail Boudreaux has an excellent track record from her time at market-leader United Healthcare, and her initiatives have already improved operating performance at Anthem, which we anticipate can continue.

We also think the government business will continue growing nicely. Medicaid and Medicare Advantage growth is driven by providing better health outcomes at a lower cost. In addition, the Medicare population is growing as the country ages.

We purchased our shares in Anthem at about 13X earnings. We think this is a very attractive price for a business with strong top-line growth, double-digit earnings per-share growth, a strong balance sheet and excellent capital allocation. We believe the shares’ lowly multiple is due to the “Medicare for All” rhetoric during the Democratic primary race, and this talk is unlikely to dissipate anytime soon. It’s ironic that some Democratic candidates are talking about replacing private insurance with government-run programs, when in fact the federal and state governments increasingly rely on private health care to operate Medicare and Medicaid because they do so at a lower cost and with better health outcomes for patients. We rate the likelihood of Medicare for All—which would effectively eliminate private health insurance—at virtually zero. There are 176 million Americans who have private insurance. Given the political price Democrats paid for relatively modest changes to the health insurance system as a result of the Affordable Care Act, we doubt there is broad appetite to rip existing insurance coverage out of 176 million people’s hands. Should the Democrats take full control of government, we think a more likely change would be some expansion of insurance access that would grow the market opportunity for managed care companies such as Anthem.

We funded these acquisitions with proceeds from the disposals of Allergan, Aon and Medtronic. Each of them reached our estimates of intrinsic value.

Our top-performing stocks for the quarter were Samsung, ABB and Lloyds Banking Group.

Samsung rose 18% during Q4. Samsung is the largest and most profitable memory semiconductor manufacturer in the world. And while the memory market will grow over time, it has been in a downturn for the past 12 to 18 months. There are signs the market is now stabilizing and perhaps starting to recover. The stock remains somewhere between cheap and very cheap in our view, depending on the shape of the market recovery.

ABB rose 23% during Q4. Third quarter results were decent—the company is showing progress on costs, and margins are holding up reasonably well in a tough environment. Perhaps most important, investors are looking forward to the arrival of Björn Rosengren as the company’s new CEO. Rosengren had an excellent track record running Sandvik, and investors believe that Rosengren is the right person to realize ABB’s significant untapped margin-improvement potential. He starts at ABB on February 1, 2020.

Lloyds Banking Group benefited from a major breakthrough in the paralysis that has gripped the UK since 2016. Prime Minister Boris Johnson was re-elected with an overwhelming Parliament majority. This will put an end to the seemingly endless debate about whether a European withdrawal agreement can pass through Parliament: It can and will. This has increased optimism the UK economy can now move out from under the Brexit cloud and return to growth. However,

significant challenges remain in terms of negotiating the terms of trade with the EU in a post-Brexit landscape.

Our worst performing stocks for the quarter were Expedia, Progressive and Oracle.

Expedia's shares plummeted 19% in Q4 as management dramatically reduced the company's profit outlook tied to higher marketing expenses. Expedia relies on Google for most of its customer traffic—some through organic search (which is free) and some through paid search. During the quarter, Google made changes that shifted more of Expedia's customer referrals to the paid channel, reducing Expedia's profits and stoking fears Google may be interested in entering the online travel space. We believe these fears are unfounded. Google already commands a significant share of the online travel economics via advertising sales. Further, entering the industry would require meaningful additional effort—including dealing with the real-world complexity of hotels, customers and travel plans—without much incremental benefit.

Expedia operates in an attractive and growing industry. The business economics are attractive, it generates solid cash flow, and we believe the company has an opportunity to significantly increase profitability. We took the opportunity to add to our position at prices near our original purchase price.

Progressive was among our top performers for much of 2019. However, the insurance market softened in Q4, and Progressive's underwriting margins contracted—pushing shares down 6%. Nevertheless, the business is healthy—underwriting, though worse, remains excellent, and the company is well-positioned in the industry with double-digits policy growth. Despite giving back some gains in Q4, Progressive was a solid contributor for the year, up 25%.

Oracle's shares were down 3% in Q4. During the quarter, co-CEO Mark Hurd tragically passed away after taking a leave of absence in September for health reasons. Former co-CEO Safra Catz will continue as sole CEO, while founder Larry Ellison will remain chief technology officer. In December, Oracle reported weak Y/Y revenue growth in its fiscal Q2 results. We believe this was due to temporary factors related to a product transition and an internal sales force reorganization, and we expect the company's revenue growth rate to accelerate later this fiscal year.

For more information: Visit www.artisanpartners.com

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Artisan Global Value Strategy

Quarterly Contribution to Return (% USD)

As of 31 December 2019

Top Contributors	Average Weight	Contribution to Return	Ending Weight
Samsung Electronics Co Ltd	4.96	0.86	5.22
ABB Ltd	3.55	0.76	3.87
Lloyds Banking Group PLC	2.90	0.67	3.02
NXP Semiconductors NV	3.61	0.59	3.51
Citigroup Inc	3.51	0.56	3.66
Facebook Inc	3.48	0.52	3.66
The Bank of New York Mellon Corp	3.58	0.42	3.66
Alphabet Inc	3.85	0.37	3.92
UBS Group AG	3.45	0.36	3.66
Marsh & McLennan Cos Inc	3.07	0.35	3.15
Baidu Inc	1.60	0.34	1.71
Royal Bank of Scotland Group PLC	1.37	0.33	1.26
IMI PLC	1.11	0.33	1.13
Tesco PLC	2.21	0.33	2.32
Telefonica Brasil SA	2.76	0.24	2.85
ING Groep NV	1.53	0.22	1.53
Cie Financiere Richemont SA	3.11	0.22	3.22
DENTSPLY SIRONA Inc	2.89	0.19	2.73
BAE Systems PLC	2.27	0.19	2.35
Groupe Bruxelles Lambert SA	1.81	0.18	1.83
United Technologies Corp	1.59	0.16	1.51
American Express Co	2.67	0.15	2.70

Bottom Contributors	Average Weight	Contribution to Return	Ending Weight
Expedia Group Inc	3.21	-0.58	3.10
The Progressive Corp	1.84	-0.13	1.84
Oracle Corp	3.00	-0.08	2.78
Hyundai Motor Co	0.54	-0.08	0.00
Advance Auto Parts Inc	1.42	-0.06	1.36
Aon PLC	0.50	-0.04	0.00
HeidelbergCement AG	0.45	-0.03	1.44
Bharti Infratel Ltd	0.63	-0.02	0.63
Nestle SA	1.47	-0.01	1.43
Anthem Inc	0.10	-0.00	1.42
Cash Holdings	7.21	0.00	5.69
Imperial Oil Ltd	1.51	0.01	1.51
Bankia SA	0.29	0.03	0.29
Arch Capital Group Ltd	2.54	0.04	2.39
Sodexo SA	1.18	0.06	1.19
Allergan PLC	0.60	0.08	0.00
Cognizant Technology Solutions Corp	2.86	0.09	3.07
Medtronic PLC	2.04	0.09	0.00
Booking Holdings Inc	2.22	0.11	2.26
FedEx Corp	3.34	0.14	3.56
Carnival Corp	0.29	0.15	1.64
Wells Fargo & Co	1.89	0.15	1.95

Source: Artisan Partners/FactSet. Performance is historical and is not a reliable indicator of future results. As of 31 Dec 2019. 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.