



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 (% USD)

As of 31 March 2021	Average Annual Total Returns						
	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception ¹
Composite — Gross	9.73	9.73	66.49	—	—	—	31.45
Composite — Net	9.53	9.53	65.30	—	—	—	30.49
S&P 500® Index	6.17	6.17	56.35	—	—	—	33.70

Annual Returns (% USD) 12 months ended 31 March

	2017	2018	2019	2020	2021
Composite — Gross	—	—	—	—	66.49

Source: Artisan Partners/S&P. Returns for periods less than one year are not annualized. ¹Composite inception: 1 March 2020.

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.



There Is No Limit (TINL)

No acronym sums up the latest era of investing better than the acronym TINA—there is no alternative. It's the message central banks have sent investors for the past decade as they executed the greatest monetary experiment in history. The economic merits of zero/negative interest rates and furious money printing are debatable, but as to their ability to levitate stock and asset prices, there simply is none. A share of Google or a bank deposit paying -20bps? Case closed.

And TINA has come to define the great era of growth investing. Low nominal and negative real interest rates combined with sluggish growth have been rocket fuel for disruptive companies able to grow through it. With real rates below zero, no promise of future profits seems too distant to justify multibillion-dollar valuations.

But today we propose a new acronym—one that may better define the post-pandemic era into which we now step. Fiscal policy is front-and-center and the message could not be clearer: There is no limit to governments' ability to borrow and spend. Welcome TINL.

Consider the dollars for they are stunning. The Trump administration passed two economic stimulus measures in response to the COVID-19 pandemic: the CARES Act in March 2020 and the Consolidated Appropriations Act 2021. The CARES Act totaled \$2.2 trillion, and the Consolidated Appropriations Act totaled \$2.3 trillion for a combined price tag of \$4.3 trillion. In March 2021, the Biden administration passed the \$1.9 trillion American Rescue Plan. That's \$6.2 trillion dollars between the two administrations and in a single year. And President Biden is currently proposing another \$3 trillion program which would take the debt-funded spending to \$9.2 trillion. That's 45% of US GDP of \$21 trillion (which was down 3.5% in 2020). If that ratio doesn't convey the magnitude of the fiscal tidal wave, a few others might:

- It's 2X the amount the US spent to fight World War II over four years (adjusted for inflation)
- It's 13X the amount the US spent to fight the Vietnam War over more than 10 years (adjusted for inflation)
- It's more as a percent of gross output than what was spent in the New Deal to recover from the 30% multiyear GDP decline of the Great Depression
- It's 11X the amount of President Obama's 2009 stimulus program
- It's 56X the amount of President Bush's 2008 stimulus program
- It's 577X the amount of President Clinton's 1993 stimulus program

None of this is lost on asset markets. The economic recovery from COVID was always going to be strong. Sharp and severe declines as a result of transitory events are almost always followed by strong recoveries. We saw this in other pandemics. For example, GDP boomed by more than 10% after the 1957 Asian Flu Pandemic. But a

debt-fueled spending binge will undoubtedly throw fuel on the fire of the natural recovery.

And assets most sensitive to economic growth and recovery have taken the lead from recession-resistant growth stocks. Steel, oil and gas, and airlines were all strong performers in Q1 as value trounced growth stocks for the second straight quarter. Commodities read from the same script. Crude oil prices rose more than 20% this quarter after a similar increase in Q4 2020. Other commodities prices mostly followed the same trajectory. Copper rose 16% in Q4 2020 and another 15% in Q1 2021. Gold—the pandemic's safe haven—fell 10%.

Expectations for recovery are indeed high across most markets. In many cases, stock prices are higher than they were in 2019. This suggests to us COVID-19 will end up a temporary earnings blip and that earnings power will soon exceed prior peaks. Is this right?

We think it probably is. As the numbers demonstrate, the amount of money thrown at the economy is without precedent in US history. In addition, savings rates are high across the developed world and deposits are flooding onto bank balance sheets. Banks are eager to lend, particularly since credit quality throughout the pandemic has remained essentially benign, and areas such as travel and leisure and entertainment will experience enormous pent-up demand. Indeed, we are already seeing signs that when restrictions are lifted, travel demand may exceed 2019 peaks. In the United States, consumers across the income spectrum and regardless of employment status or need, have received thousands of dollars from the federal government, a large portion of which will be spent. Spending power for most of the American public might be higher than it has ever been. Moreover, monetary policy remains at crisis levels, which is to say interest rates remain effectively zero—negative in real and, in many cases, nominal terms depending on jurisdiction.

This environment has been to our benefit. Our portfolio performed well from an absolute and relative standpoint, as it did during Q4 2020 as well. The strength of the financial system throughout the shock of COVID has become more and more apparent. Our bank holdings have preserved, and in fact grown, book value per share through the downturn, and it appears they will be sitting on meaningful excess capital on the other side. A steeper yield curve should also benefit net interest income and therefore profits as the global economy starts growing in earnest. Our travel holdings—Expedia, Booking and Southwest—have also done well as the return to travel appears more and more imminent with the virus beginning to recede as vaccinations rise. In short, our portfolio should benefit from a normalization of economic activity as many of our holdings are quite sensitive to the economic cycle.

But surely there are risks to this debt-fueled reflation trade? Pegging interest rates at zero while borrowing \$9 trillion on a \$21 trillion economy is absolutely not risk-free. Some might even call it

unnecessary given the rebound already underway. Others will deem it downright reckless.

Inflation is the first and biggest risk and the market is beginning to anticipate it. With nearly half of GDP being borrowed and spent, how could they not? Commodities prices have bounced dramatically. Yield curves have steepened. Supply chains are tight. Workers in many cases are earning more staying at home collecting government checks than they would make going back to work. Wages may have to rise just to incentivize workers to come back. While some inflation may be desired by central bankers, controlling inflation once it emerges has proven very difficult in the past.

Still, whether all this spending will actually change the trajectory of economic growth remains an open question. The economy is almost certain to boom in the back half of 2021 and into 2022. But after that? If government borrowing and spending were the key to sustainable growth, Japan would be the envy of the world over the past 30 years. It has perfected the art of deficit spending to the tune of 250% debt to GDP. Yet the economy stagnates and the debt remains outstanding.

And note, government debt to GDP globally is reaching levels never seen in modern history. The US is approaching 100% of GDP for the first time since World War II and is on course to exceed 200% in the decades to come. Countries across Europe have even worse debt dynamics. And note that neither private investors nor domestic banks are absorbing all the debt issued to finance this orgy of spending. Central banks are the marginal buyers. They are printing the money to buy the debt investors will not. The Federal Reserve now owns almost a quarter of US government debt and is buying up \$80 billion Treasuries per month—almost a trillion a year!

So as markets recover and valuations reflect strong near-term growth, we must ask: Is this the beginning of a strong reflationary period and a step up in growth, or merely a boom followed by a reversion to the prior trend, but with an enormous bill left to pay?

That is indeed the \$9 trillion question.

Portfolio Discussion

We added Harley-Davidson to the portfolio during the quarter. Harley is the largest maker of motorcycles in the US, with ~50% market share. Its iconic brand allows it to compete on heritage rather than technology, which leads to a pricing premium that has historically enabled industry-leading margins and attractive returns.

The past several years have not been kind to Harley. Since 2015, revenues are down 40%, and profits have evaporated. Last year it sold 145,000 units—around half of what it sold five years ago. Some of this is cyclical, but the primary reason for the decline is attributable to the prior management team's failed strategy which attempted to extend the brand beyond its core customers. Management pursued unprofitable growth initiatives and over-produced unwanted bike

models. This led to a promotional environment and threatened to damage the brand.

Fortunately, a new management team is in place and is making sensible changes. Last year, the company brought in Jochen Zeitz as the new CEO. He is best known for resurrecting the Puma brand and eventually selling it to Kering. Mr. Zeitz understands how to manage a brand, and he has refocused the strategy to draw on Harley's strong heritage. The company is emphasizing the products that best represent the Harley image and exiting the unprofitable initiatives which didn't fit. These efforts should improve the company's focus, brand image and profitability.

There are early signs the strategy is working. Over the past year, Harley has reduced production volumes and cleared out inventory. Our due diligence suggests there is now more demand for bikes than there is supply, which has created scarcity and reduced promotional activity. These efforts are even filtering down to used bike prices, which have started to rise. This is important because most new Harley motorcycles are sold as part of a trade-in, so the residual values of used bikes are an important driver of new bike sales.

The business now appears to be moving in the right direction for the first time in many years. While it might not recover to prior peaks (nor should it), we believe it should rebound from the current levels and the new strategy will meaningfully improve the profitability. Assuming a modest rebound, the valuation is very attractive at 10X-11X normalized earnings, which is a bargain for an iconic and valuable brand.

Our top contributors during the quarter were Expedia, DENTSPLY SIRONA and Alphabet.

Expedia shares rose 30% during the quarter as the vaccine rollout gained traction and the prospect for a rebound in travel started to become visible. At the moment, this is mostly optimism about the future. The recovery will be bumpy depending on the geography, and Expedia's current business fundamentals remain very depressed. However, there are pockets of evidence that suggest pent-up demand for travel. We believe Expedia is well-positioned to capture this initial rebound given its strength in the domestic US market and its VRBO home rental business. In addition, management has used the crisis to meaningfully restructure the business and reduce costs. When the business eventually recovers, we expect it should have meaningfully higher margins and improved profitability.

DENTSPLY SIRONA shares rose 22% during the quarter. DENTSPLY is the largest supplier of consumables and equipment to dentists and was severely impacted when dentist offices were closed during the pandemic. In Q1, the company's earnings showed significantly improved fundamentals, and it provided an upbeat outlook for the rest of the year. Most dentist offices are now open, and the dental

market is recovering. Most importantly, DENTSPLY appears on track to achieve the growth and profitability goals it outlined prior to the crisis.

Alphabet shares rose 18% during the quarter. The primary driver is continued strength in e-commerce spending and a related recovery in online advertising. The company reported excellent Q4 earnings, which had the highest revenue growth and margins in two to three years. Importantly, this came without a recovery in travel-related advertising, which is one of Google's most important ad verticals.

Our worst performers during the quarter were Cognizant, Novartis and Samsung.

Cognizant returned -4.0% in Q1. Revenue declined 2.0% in Q4, primarily driven by a settlement to exit a large contract with a financial services customer in continental Europe. This contract had been mispriced (prior to the current CEO Brian Humphries' joining Cognizant), and its execution would have resulted in a frustrated client and in Cognizant's losing a significant amount of money. As such, Mr. Humphries chose to walk away while protecting the brand. He has made changes to ensure such events do not happen again. Excluding this one-off event, the business declined 1.0% organically in 2020—in a very difficult year for most businesses—and outperformed the global IT services market which Gartner estimates to have declined 2.6%. The business continues earning strong returns on capital (80%+) and demonstrating excellent free cash flow conversion (~100%) and has secular growth prospects. Mr. Humphries has been on a journey to make the business more relevant to clients and reinvigorate growth. The changes he has made to date are in line with the long-term plan and are likely to result in accelerating revenue growth as well as profitability improvement.

Novartis' shares were flat in local currency but declined 6% in dollar terms due to a weaker Swiss franc. Novartis reported good results recently, and there is no fundamental issue with the business. Investors are wary of the pharmaceuticals industry. We do not believe there will be any changes to the regulatory landscape that will impair Novartis' value. The company currently has a strong portfolio of drugs in the market and one of the best pipelines in the industry. We expect it to prosper for many years, and we added to our position on weakness during the quarter.

Samsung's shares declined 3% during the quarter after rising 40% in Q4. While Samsung underperformed in Q1, the company's fundamentals remain strong. Demand for memory semiconductors is solid, and spot prices are rising. This should meaningfully boost Samsung's profits over the coming year. At roughly 10X normalized ex-cash earnings, we continue to find the shares highly attractive.

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For Institutional Investors – Not for Onward Distribution



Artisan Select Equity Strategy

Quarterly Contribution to Return (% USD)

As of 31 March 2021

Top Contributors	Average Weight	Contribution to Return	Ending Weight
Expedia Group Inc	4.41	1.25	4.70
DENTSPLY SIRONA Inc	5.77	1.21	5.18
Alphabet Inc	5.44	1.06	4.85
HeidelbergCement AG	4.69	0.96	4.91
American Express Co	5.13	0.93	5.22
Citigroup Inc	4.85	0.91	4.92
Anthem Inc	5.51	0.72	6.16
Advance Auto Parts Inc	3.97	0.64	4.32
The Bank of New York Mellon Corp	5.05	0.63	4.96
Southwest Airlines Co	2.02	0.59	2.21
Berkshire Hathaway Inc	5.08	0.54	5.07
Cie Financiere Richemont SA	4.84	0.33	4.35

Bottom Contributors	Average Weight	Contribution to Return	Ending Weight
Novartis AG	3.26	-0.30	2.89
Cognizant Technology Solutions Corp	5.17	-0.30	5.04
Samsung Electronics Co Ltd	5.93	-0.25	5.31
Visa Inc	3.21	-0.10	3.05
Cash Holdings	5.93	-0.00	5.05
The Progressive Corp	3.48	0.03	3.57
Harley-Davidson Inc	0.31	0.07	1.69
BAE Systems PLC	1.82	0.07	1.76
Marsh & McLennan Cos Inc	2.77	0.15	3.05
FedEx Corp	2.22	0.20	2.23
Booking Holdings Inc	4.85	0.27	4.81
Facebook Inc	4.31	0.33	4.72

Source: Artisan Partners/FactSet. Performance is historical and is not a reliable indicator of future results. As of 31 Mar 2021. 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.