



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 2022	Average Annual Total Returns						
	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception ¹
Composite — Gross	-3.65	-3.65	2.61	—	—	—	16.73
Composite — Net	-3.84	-3.84	1.85	—	—	—	15.86
S&P 500® Index	-4.60	-4.60	15.65	—	—	—	24.71

Annual Returns (% USD) 12 months ended 31 March

	2018	2019	2020	2021	2022
Composite — Gross	—	—	—	66.49	2.61

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.



Market Overview

We thought we might make it at least a few years without another crisis, but alas, it was not to be. Instead of looking forward to an expected post-COVID landscape of recovery and growth, we face a landscape scrambled by the Russian invasion of Ukraine.

Clearly, the humanitarian cost of the war is incalculable. The world has not seen such barbarism in Europe since Adolph Hitler, and Vladimir Putin's targeting of Ukrainian civilians recalls one of the bloodiest sieges in history, the Nazi siege of Stalingrad in Russia during World War II (WWII). That Putin called his invasion a "de-Nazification" exercise made the irony even more bitter. The direct global economic impact of the invasion, however, is modest. Russian GDP prior to the war was \$1.5trillion, less than one-tenth of the US. Most global businesses have some modest exposure to Russia, typically 1%-2% of revenue, in our experience. Ukraine is even less significant. The collapse of the Russian and Ukraine economies is therefore not particularly painful to either the global economy or to diversified businesses such as the ones we own. The derivative impacts, however, are significant.

They are felt foremost in the energy markets. Russia is one of the largest producers of oil and gas in the world. And Europe depends on Russian gas for its energy needs. European members of the Organisation for Economic Co-operation and Development (OECD) consume 74% of Russia's gas exports. Among them, Germany imports a third of its crude oil and 66% of its gas from Russia. Italy depends on Russia for 43% of its gas supply. Europe is scrambling to find alternatives to Russian energy, including accelerating construction of liquified natural gas (LNG) terminals to allow imports by ship rather than via Russian pipelines. Unfortunately, LNG terminals take a long time to build, and terminals themselves will not solve the problem. There simply is not enough gas coming out of the ground (outside of Russia), and more of it is needed before LNG can be made available to Europe.

Pressure to shut off the flow of Russian gas is mounting on Europe—and Germany in particular. A shutoff is tempting on humanitarian and geopolitical grounds, because it would deprive Putin of the hard currency cash flow he needs to fund his war. But it would be disastrous for Germany, Europe and the global economy. Factories would shut down for lack of power. Homes would go unheated. Absent a wider war in Europe, an energy shortage is likely the biggest immediate economic risk posed by the war. Energy security has suddenly become an existential issue, and many governments are scrambling to reconcile their desire to eliminate fossil fuels and reduce CO2 emissions with the reality that cheap and plentiful fossil fuels are essential to prosperity and social harmony. In the medium term, the two are likely irreconcilable.

Then there is China. Prior to the invasion, China and Russia declared a "no limits" partnership and promised to collaborate more together against the West. The two countries share the same objective: build a

strategic alternative to the Western vision of human rights and democracy. Russia's invasion of Ukraine now puts China and the West in a dangerous position. Support Russia overtly and China risks provoking the same punishing sanctions levelled against Russia. As a result of those sanctions, Russia is essentially severed from the global economy—with the exception of energy supply. Russia's foreign currency reserves have been frozen, and Russia cannot access hundreds of billions of dollars in hard currency it needs to fight the war and support its economy. Russia is now a pariah state, cut off from Western trade, goods, services and investment. Within a matter of weeks, Russia reverted to the Soviet-era economy of the 1980s. It is essentially Cuba but with nuclear weapons and gas reserves.

China will not want to follow this path and is therefore engaged in a precarious geopolitical balancing act. Its economy is deeply integrated with the Western world. China traded \$709 billion in goods with Europe and \$559 billion with the US in 2020. Should those economic ties be severed, the impact on China as well as Europe and the US would be catastrophic—undoing decades of global economic development in a single stroke.

While many have drawn parallels between China and Russia, we think the comparison stops at their mutual self interest in restraining the US as the global superpower. Russia and China are very different. Russia is a kleptocracy with a political and economic system built on the patronage of oligarchs—individuals anointed by Putin to oversee sections of the Russian economy who then extract wealth for themselves and Putin through their oversight. This central nervous system of incentives maintains the current system of government and prevents the Russian economy from becoming deep or wide. The country is largely dependent on oil and gas, which makes up about 39% of government revenue.

China, on the other hand, is an economic powerhouse. Its manufacturing base is deeply engrained in the supply chains of the global economy, and its enormous and growing middle class draws trade and foreign direct investment from around the world. Agree with its model of government or not, China is nothing short of an economic miracle. The country's economic management has arguably lifted more people out of poverty in a shorter period of time than any other in history. We believe China will manage its strategic position very carefully—support Russia as little as it can to avoid provoking Western economic sanctions but enough to present itself as a counterweight to American influence.

We can be sure, however, that China's economic planning for the next decades will include efforts to insulate itself from the West's economic dominance. Given China's aspirations for Taiwan, vulnerability to retaliatory economic sanctions is an enormous strategic risk for China. And the confiscation of Russia's US dollar reserves will have created enormous angst in Beijing, given it is the largest holder of US dollar reserves. The COVID-19 crisis opened the world's eyes to the importance of controlling supply chains and key industries such as

semiconductor manufacturing. The war in Ukraine has only created greater urgency on these points. If the pandemic started to close the door on the era of globalization that characterized the last few decades, the war in Ukraine slammed the door shut. The era of globalization is almost certainly dead.

There are arguably other postscripts to be written.

The era of secularly falling interest rates and central bank money printing may also be winding down. Inflation was already a serious issue, and the war in Ukraine has made it worse. The war is disrupting the energy economy, but it is also disrupting the world's food supply as Russia and Ukraine are two of the largest exporters of grain to the world. Inflation is at a 40-year high in the US with no sign of falling. Interest rates have gone up, and quantitative easing is shifting toward quantitative tightening. The 10-year US Treasury yield has jumped from 1.6% in January to 2.6% as we write. The Fed is signaling significant interest rate increases throughout 2022 and that it will soon begin to shrink its balance sheet after more than ten years of staggering expansion. But with an expected fed funds rate of 2.8% by end of 2022 and inflation running somewhere between 5%-10%, monetary conditions can hardly be considered tight. Indeed, the 10-year US Treasury yield is merely back to where it was in 2018, though inflation is roughly four times higher. It seems surreal to even write that current inflation levels have just barely driven the yields of most European government bonds out of negative territory.

How central banks in the developed world manage the tightening cycle is of enormous consequence. On the one hand, inflation seems out of control and likely needs to be addressed by rate increases and central bank balance sheet reduction. On the other hand, government balance sheets in the developed world have reached levels not seen since WWII, leaving few levers available to quickly reduce spending, deficits and debt. Even modest interest rate increases will have an impact on government deficits, crowding out other forms of spending and further increasing debt levels absent painful fiscal adjustments. At the same time, inflation also drives up government spending as it increases the cost of auto-pilot entitlement spending such as Social Security in the US. Facing the risk of runaway inflation on one side and fiscal pain on the other, central banks are walking a razor's edge. Our assumption is always that policy makers almost always choose what is easy over what is sound. But we see no easy path for democratically elected governments to navigate the current monetary and fiscal conundrum. What is easier—letting inflation run in order to reduce debt in real terms, or raising rates to a level that may bust budgets and push economies into recession? We do not know. The history of monetary economics is one of innovation and necessity, and we are the audience awaiting the next act. The good news is consumers in the developed world are in relatively good shape, with strong balance sheets and a strong desire to spend after two years of COVID-induced suppression. The current economy is very strong. And who knows? Perhaps the surge of inflation will ebb and the policy consequences will be de-risked.

Today's landscape also turns the world's attention to environmental, social and governance (ESG)—a movement advocating that ESG considerations should weigh heavily in investment decisions and capital allocation. The popularity of ESG is evidenced by the tremendous growth in ESG-themed assets, which have increased by 270% over the past five years. Part of this framework is entirely non-controversial. For example, if a business faces environmental risks or opportunities, any fundamentally oriented investor should weigh them alongside other considerations. Government policies that incentivize clean energy are clearly an opportunity for some businesses and a risk for others, namely oil and gas companies. That corporate governance is an important consideration for any investor is also non-controversial. Social considerations are harder to define, but we would include legal, regulatory and community relations as factors that can impact investment outcomes.

But the world of ESG can blur the lines between basic risk and reward investment considerations and the realm of highly personal values. For example, many ESG-oriented investors exclude oil and gas from their portfolios because burning fossil fuels contributes to global warming and is therefore an immense social harm. Oil and gas is one of the most persistently underweighted areas by ESG investors. Some ESG investors may include oil and gas in their portfolios but only if the companies have a strategic commitment to reducing their carbon emissions, which one could argue is a commitment to exit the oil and gas business eventually. These convictions are reasonable, but it must be said they are values-based. For example, the question of the social good of the fossil fuel business can be viewed from many angles. On the one hand, fossil fuels generate emissions that are damaging to the environment. On the other hand, fossil fuels contribute enormously to the economy, public welfare and social good. Without fossil fuels, we could not farm, bring food to market, heat our homes and offices and clothe ourselves. Moreover, currently sky-rocketing oil and gas prices are causing enormous pain to poor and middle-class consumers around the world. Some must choose between heating their homes and paying for groceries. Current investment levels in fossil fuels are simply not enough to meet current demand, contributing to the high cost of gasoline and heating fuels. One could argue, therefore, that an increase in fossil fuel investment is needed to help maintain social harmony. Viewed from this angle, fossil fuel investment is a moral and social imperative. How one weighs such seemingly conflicting perspectives is a complex process, and ultimately one that reflects an individual's value system.

We can make similar observations about defense companies, another sector frequently underweighted by ESG investors. In the latest draft of the highly influential EU taxonomy—a classification system of activities contributing to the social good—defense companies were classified alongside tobacco and gambling as damaging to the social good. It is not difficult to understand the impulse behind this classification. Weapons are instruments of war and death as the blood-soaked battlefields of history so testify. But one's viewpoint on

the social value of the defense industry will depend on perspective. The Ukrainians will argue that the Javelin missile has made the difference in their ability to defend against Russian aggression. Indeed, it is this very perspective that has led to calls to rewrite the EU taxonomy to reclassify defense companies as socially desirable. This perspective has also led to pledges by European governments to significantly increase their defense budgets after years of stagnation and decline. They are, to be blunt, afraid for their lives in the face of Russian aggression.

For investors and fiduciaries such as ourselves, the question is this: If we are to make investment decisions based on personal values, whose personal values will we use? Dan O'Keefe's? Michael McKinnon's? Those of Client A or those of Client B?

For a time, these questions could be avoided. For almost a decade, shares in oil and gas companies as well as defense companies underperformed the market persistently. In contrast, the shares of information technology and software-related businesses massively outperformed the market. Most of them score very highly on ESG metrics, though we would argue this relationship is coincidental rather than causal. As a result, the difficult values-based questions around oil and gas and defense could be ignored because there was no performance penalty to be paid. But as a result of persistent underinvestment in exploration and production, combined with continued strong demand, oil and gas prices have skyrocketed and returns on equity and capital have increased. Share prices have followed. Over the past year, oil and gas is one of the best performing sectors in the world. The war in Ukraine has virtually guaranteed that governments will increase defense budgets. Share prices of defense companies have followed and are up significantly this year in a down market.

Today, the difficult questions for ESG are much harder to ignore.

Portfolio Discussion

Lingering COVID-19, surging inflation and a war in Ukraine cast a pall over markets this past quarter. The S&P 500® Index crossed the magical line into correction territory in early March but bounced back to close down 5% for the quarter. The S&P was dragged down by expensive IT shares as investors contemplated a decade of uninterrupted share price outperformance, record valuations and the impact of inflation and rising rates on investor tolerance for high multiples. Other developed world stock markets fared a little better in local currency terms as they tend to be biased toward "value" stocks, which generally did better than growth. Translated back into dollars, however, international markets did as poorly or worse than the US as international currencies generally depreciated against the US dollar. We believe this is due to the expectation that rates rise faster in the US than Europe. Surprisingly, the European Central Bank seems reluctant to raise rates even as inflation spreads. The Fed, on the other hand, has made it clear rates are going up.

Bonds fared much worse, as 10-year US Treasury notes sank 7% and 30-year US Treasury bonds were down 11%. With inflation running at high single digits or higher, current prices on government bonds look like a guarantee of capital loss. Unsurprisingly, what is fixed income investors' pain has been commodity investors' gain. As we mentioned in the prior section, the current environment is rocket fuel for oil and gas shares. Strong demand and uncertainty around future supply—created by underinvestment in exploration and production and a war in Ukraine—led to a strong oil price and of course strong share prices.

Our best performers this quarter were Berkshire Hathaway, American Express and Alleghany.

Berkshire Hathaway's shares climbed 18%. Berkshire is a conglomerate with a large pile of cash and securities, as well as a number of operating companies. The largest contributors to earnings are manufacturing, railroads, insurance and utilities. The earnings performance of the business has been good. Berkshire's 2021 earnings excluding performance of the investment portfolio were 11% above 2019 levels. In addition, its financial strength is attractive in the current environment.

American Express' shares were up nearly 15%. Credit quality has remained resilient and, importantly, its core client base has continued spending through the COVID-19 crisis. Though this is in part cyclical with the pandemic having shifted purchase activity online for a time, structurally, consumers have also been migrating payments from cash and checks to electronic. Interestingly, American Express' marketing initiatives with millennials have proven very successful, demonstrating that its value proposition is appealing outside of what has historically been an older, affluent card member base. And finally, American Express is well positioned for inflationary environments. Its fee income is a function of the dollar volume of spend that flows through its network, and as that dollar value increases in nominal terms, so does its profit stream.

Alleghany is a recent purchase and was our third-best performer this quarter. After we wrote about Alleghany in the fourth quarter of last year, the value of this stock also caught the attention of revered value investor Warren Buffett at Berkshire Hathaway, which offered to buy Alleghany at \$848 per share. Alleghany's shares gained 27% during the quarter on the news. The transaction is expected to close, as Berkshire has plenty of cash to finance the bid and no other bidders seem likely to emerge. Unsurprisingly, the price offered by Berkshire is slightly below our estimate of intrinsic value. Berkshire tends to acquire businesses at about fair value, whereas other acquirers typically pay above fair value.

Our worst performers this quarter were Meta Platforms (formerly Facebook), Axalta Coatings and HeidelbergCement.

Meta shares declined 34% during the quarter. The company is facing several headwinds that are slowing growth this year. Four main issues surfaced during its recent earnings results: 1) slowing user growth, 2) competition from TikTok, 3) negative mix shift and 4) a decrease in the effectiveness of its advertising products due to Apple's privacy policy changes. Let's discuss them each.

The concern over a slowing user base is largely misplaced. While daily users of Facebook were down 0.1% versus the prior quarter, the daily users across Meta's entire family of apps (including WhatsApp, Instagram, etc.) were up. As a whole, the ecosystem is still gaining users; pretty incredible given we are now lapping a period of intense user growth during the pandemic. And the user base is still 25% higher than it was prior to the pandemic—the monthly users across all of Meta's family of apps is over 3.5 billion. The future value of Meta cannot be based on the expectation for more user growth, which has matured. The growth needs to come from more monetization.

Competition from TikTok is a legitimate concern with both long-term and short-term implications. In the long term, TikTok is probably Meta's most relevant competitive threat (despite what the FTC asserts). While it is not technically a social network, it is competing for users' time and attention—which creates the ad inventory that drives the business model. Meta is responding by building a new product called Reels, which is essentially a copycat version of TikTok's viral video product. Given Meta's massive user base and vast technical resources, it will likely successfully create an ecosystem around short videos. However, the Reels product is not optimized for advertising yet, which means that as it drives traffic to this new product, it is creating adverse mix shift and a near-term headwind to advertising revenues. While focusing on the long term is the right thing to do, it is creating additional temporary pressure on revenue growth.

The last issue was Apple's privacy policy changes, which impaired Meta's ability to target and measure advertising on the iPhone. The company's estimated cost is \$10 billion in revenues this year, or 800bps of growth. Meta is investing billions to mitigate the impacts of these privacy changes. We have done extensive diligence to understand the impact. Our research suggests Meta is making progress, but it is far from clear whether it will be able to completely get back to where it was before the changes.

During the quarter, we added to our Meta position. Despite the headwinds, Meta is still an exceptionally high-quality business with remarkable growth potential. Its revenue grew 37% in 2021, and we expect it to grow double digits this year. Meta owns four of the six most widely used online platforms in the world, with 3.5 billion active monthly users. It operates in a secular growth market, its financial returns are excellent, and it has \$50 billion in net cash on the balance sheet. During the quarter, shares of Meta were available at 12X-13X earnings. We find Meta's combination of quality, growth and valuation exceptionally attractive.

Axalta declined 26% during the quarter, primarily due to the rising cost of raw materials. Axalta—and coatings businesses in general—have historically been able to pass on inflation and protect margins. The current rate of input cost increases, however, is unprecedented and hinders Axalta's ability to raise prices faster than raw material inputs are rising. If input cost inflation moderates or levels, we expect price increases will get ahead of the curve and margins will recover. In addition to pricing-driven margin recovery, we believe Axalta has another lever to earnings growth. The company's automotive OEM coatings business remains depressed and should recover as automotive production recovers from supply chain-driven constraints. The shares are extremely cheap in our opinion, and we added aggressively to our position during the quarter.

HeidelbergCement was down 16% during the quarter. The shares seem to be inversely correlated with the oil price, as energy is a key raw material in the production of cement. Heidelberg is clearly facing input cost inflation, and the price increases it needs to recover from inflation will likely lag the pace of inflation. Cement consumption, however, is not particularly sensitive to pricing as it is a small portion of overall construction costs. We expect price increases to ultimately cover energy cost inflation. The shares are extremely cheap at a single-digit PE multiple. We added to our position.

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For Institutional Investors – Not for Onward Distribution



Artisan Select Equity Strategy

Quarterly Contribution to Return (% USD)

As of 31 March 2022

Top Contributors	Average Weight	Contribution to Return	Ending Weight
Berkshire Hathaway Inc	6.28	1.06	6.97
American Express Co	5.04	0.66	5.31
Alleghany Corp	1.96	0.61	2.91
BAE Systems PLC	1.95	0.47	2.02
The Progressive Corp	4.43	0.46	4.75
Anthem Inc	6.47	0.40	6.72
Expedia Group Inc	3.87	0.33	4.03
Harley-Davidson Inc	4.55	0.19	4.72
Southwest Airlines Co	1.95	0.13	2.07
Sprouts Farmers Market Inc	1.16	0.09	1.26
Cash Holdings	7.74	0.01	6.45
Marsh & McLennan Cos Inc	2.42	-0.02	2.65

Bottom Contributors	Average Weight	Contribution to Return	Ending Weight
Meta Platforms Inc	4.52	-1.68	5.11
Axalta Coating Systems Ltd	5.01	-1.45	4.95
HeidelbergCement AG	4.64	-0.75	4.00
The Bank of New York Mellon Corp	4.95	-0.69	4.39
Samsung Electronics Co Ltd	4.69	-0.65	4.47
DENTSPLY SIRONA Inc	4.70	-0.61	4.67
Citigroup Inc	4.67	-0.52	4.10
Danone SA	4.22	-0.50	4.21
Advance Auto Parts Inc	3.56	-0.48	2.95
Alibaba Group Holding Ltd	3.89	-0.39	3.74
Alphabet Inc	4.74	-0.16	4.92
FedEx Corp	1.50	-0.15	1.50
Booking Holdings Inc	1.11	-0.02	1.14

Source: Artisan Partners/FactSet. Performance is historical and is not a reliable indicator of future results. As of 31 Mar 2022. 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.