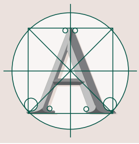


Artisan Value Equity Strategy

QUARTERLY
Commentary

As of 30 September 2022

Investment Process

We seek to invest in companies that are undervalued, in solid financial condition and have attractive business economics. We believe that companies with these characteristics are less likely to experience eroding values over the long term.

Attractive Valuation

We value a business using what we believe are reasonable expectations for the long-term earnings power and capitalization rates of that business. This results in a range of values for the company that we believe would be reasonable. We generally will purchase a security if the stock price falls below or toward the lower end of that range.

Sound Financial Condition

We prefer companies with an acceptable level of debt and positive cash flow. At a minimum, we seek to avoid companies that have so much debt that management may be unable to make decisions that would be in the best interest of the companies' shareholders.

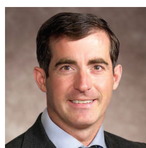
Attractive Business Economics

We favor cash-producing businesses that we believe are capable of earning acceptable returns on capital over the company's business cycle.

Team Overview

Everyone on the team functions as a generalist with respect to investment research and the entire team works together on considering potential investments.

Portfolio Management



Thomas A. Reynolds IV
Portfolio Manager

Daniel L. Kane, CFA
Portfolio Manager

Craig Inman, CFA
Portfolio Manager

Investment Results (% USD)

			Average Annual Total Returns				
As of 30 September 2022	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception[1]
Composite — Gross	**-6.64**	**-19.28**	**-15.37**	**6.65**	**5.92**	**9.05**	**7.89**
Composite — Net	**-6.81**	**-19.71**	**-15.96**	**5.93**	**5.20**	**8.30**	**7.08**
Russell 1000® Value Index	-5.62	-17.75	-11.36	4.36	5.28	9.17	6.84
Russell 1000® Index	-4.61	-24.59	-17.22	7.94	8.99	11.60	8.77

Annual Returns (% USD) 12 months ended 30 September

	2018	2019	2020	2021	2022
Composite — Net	**9.86**	**-1.33**	**0.17**	**41.20**	**-15.96**

Source: Artisan Partners/Russell. Returns for periods less than one year are not annualized. [1]Composite inception: 1 July 2005.

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.

Investing Environment

Q3 was a tale of two halves. US stocks rallied early in the quarter on better-than-feared earnings, strong top-line growth aided by price increases, and hopes of a Federal Reserve pivot due to peak inflation, before ultimately succumbing to bond market volatility. US Treasury yields continued their sharp ascent as it's become evident the Fed has more work to do on the inflation front given tight labor markets and strong wage growth. The bond market carnage has been historic. The yield on the US 2-Year Treasury bond has risen 400bps in the past year—the kind of move we haven't seen since the late 1970s/early 1980s. Bonds, which are supposed to be less risky than stocks, have incurred steep price declines, wreaking havoc on balanced portfolios. As perspective, the iShares 20+ Year Treasury Bond ETF (TLT), a widely held Treasury ETF that invests at the long end of the yield curve, has returned -30% YTD.

Taking their cues from the bond market, stocks have re-rated lower in 2022 from the readjustment to the cost of capital and fears that tighter monetary policy may lead to an economic hard landing. In Q3, the Russell 1000® Value Index fell 5.62%—its third-consecutive quarterly decline. All sectors aside from energy finished lower. Communication services, real estate and technology were weakest. From a style perspective, growth stocks pulled ahead of value for the quarter, after being trounced by value in the first half of 2022. FX market volatility has been another major story this year. A hawkish Fed, higher US interest rates and investors seeking safety are among the factors driving the rapid rise in the US dollar. A strong US dollar has the effect of tightening financial conditions globally, and when it appreciates rapidly as it has, there's more risk to financial system stability. For US companies that generate sales overseas, negative currency translation effects are an additional headwind to profits, on top of potential higher input, labor and borrowing costs.

The world today faces many challenges, perhaps more than we've seen in several decades. Inflation is running at its highest levels in 40 years; several European economies, as well as the US, are heading toward, or already are in, a recession; and China's property market is wobbling. There are record levels of private and public debt, spurred on by interest rates artificially repressed by central banks and decades of deficit spending. There is a tense and escalating ground war in Europe, the first since WWII. This is causing a variety of energy crises on the cusp of winter in the Northern Hemisphere. Currency fluctuations are becoming problematic for governments and corporations, evidenced by the Bank of England's intervention in September. Growth is slowing across the globe, in a system that is set up to thrive mainly under growthier scenarios, and the relationship between two of the world's superpowers is growing ever strained. All this is on the heels of a global pandemic. How is that for a dire set of circumstances? While this all sounds quite depressing, if history is any guide, these challenges should create great long-term buying opportunities for investors.

Performance Discussion

Our portfolio underperformed the Russell 1000® Value Index in Q3. Select holdings in the industrials and health care sectors drove the relative return deficit. In these sectors, key individual detractors were FedEx and Royal Philips. Additionally, an above-benchmark weighting in the communication services sector was unfavorable, as it's been throughout the past year.

Earnings results at FedEx, a global shipping and logistics firm, disappointed due to slowing volumes—principally in its Express segment, which resulted in negative operating leverage—in addition to continued cost pressures. The Express business has been affected by trade disruptions in Asia from China's COVID lockdowns, as well as the mix of global consumer spending trending back toward services and away from goods—a normalization of pandemic-driven consumer behavior. A key question for investors is how much of this demand slowdown is idiosyncratic and therefore less likely to repeat and how much is the start of a possible cyclical slowdown. To counter these headwinds, FedEx is looking to achieve cost reductions while it continues to implement multi-year structural cost reduction initiatives focused on technology investments and efficiency gains. Given a mixed track record and the recent earnings miss, there is a high degree of skepticism embedded in the current stock price as it sells for less than 8X our estimate of normalized earnings. While operating results can be choppy, the longer term business economics are highly favorable given the global shipping industry's consolidated structure and massive barriers to entry that afford operators with pricing power to counter cost inflation and earn respectable returns on capital over the business cycle.

There's been no letup in pressure on shares of Philips, a health care technology company. The stock has become cheaper on fears regarding the recall of its first-generation CPAP machine and the potential for legal recourse and market share losses arising in its sleep division. Adding to the company's woes are supply chain disruptions and a worsening macro environment that will weigh on deliveries and customer installations. The stock is down ~68%, losing more than €30 billion in market value from its April 2021 highs as of the end of September. The stock reaction seems excessive given the likely range of outcomes we see, so we added to our position in Q3. The sleep division is a small part of the overall business—which we do not believe is going to zero. The company has a large installed base of medical diagnostic equipment (e.g., MRI/PET/CT/ultrasound scanners) that offers a high recurring stream of software-like maintenance revenues. This is a sticky business as medical providers are reluctant to switch over to competitors. We appreciate that until there is greater clarity on the full impact of the recall and how long it may take to resolve, the stock will remain under pressure, but we believe today's asking price offers the potential for highly attractive multi-year returns.

Netflix and Vertex Pharmaceuticals were two of our top contributors. Shares of Netflix got some relief after being under pressure in the first half of 2022. Media and entertainment stocks in general have been out of favor as investors grapple with the long-term economics of streaming services and slowing subscriber growth—what should be viewed as a normal feature of a maturing market. Our view is streaming is a scale and intellectual property business that will result in a few large winners, and we believe Netflix will be among this group. We initiated our position in Netflix in Q1 after shares fell by more than half due to concerns about subscriber growth and increasing competition from streaming upstarts. The stock then

suffered a second down leg in April after the company reported subscriber losses for the first time in its history. Then in July, the company reported its second consecutive quarter of subscriber losses, but the nearly 1 million subscribers lost were much lower than the 2 million that management had forecast, and shares rallied on the news. For patient investors, there is reason for optimism that subscriber growth will turn around. The company has plans to crack down on password sharing and is launching a lower cost advertising supported tier. Our investment case is focused on an undemanding valuation, massive scale, a continued shift in time and attention from linear TV to streaming, and a financial condition which gives management the flexibility to operate unconstrained during a transition period for the business. We also believe Netflix can leverage its massive global scale of 200+ million subscribers into positive free cash flow though steady pricing increases and content spending controls.

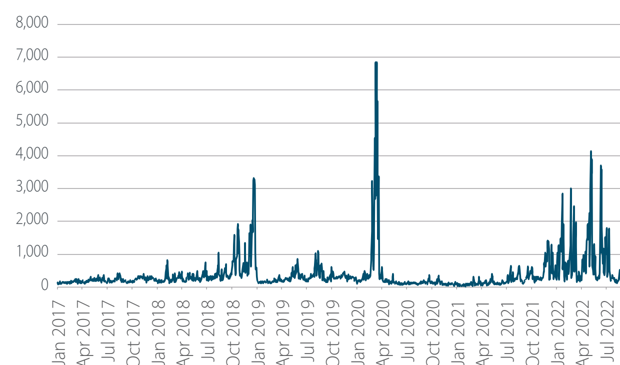
Biotechnology company Vertex Pharmaceuticals dominates the market for treatment of cystic fibrosis (CF) with limited competition. In addition to solid growth in CF revenues that has driven better-than-expected results, positive progress in its development pipeline has lifted shares. At the time of our Q2 2021 purchase, the stock was under pressure due to regulatory hurdles and Vertex's decision not to pursue late-stage development of VX-864 after an unexpectedly unfavorable outcome. VX-864 is designed to treat alpha-1 antitrypsin deficiency (AATD), which is an inherited disorder with a strong correlation to pediatric liver disease. Irrespective of Vertex's AATD pipeline, the company has nearly two decades of patent protection remaining for its CF franchise. Management maintains a healthy reserve of cash and is focusing on research and development. We believe near-term growth is likely to be driven by Vertex's expanding geographic presence and expansion of medicines to lower age groups, with long-term gains arising from the company's diversifying pipeline.

Portfolio Activity

In our review of the current investment environment, we painted a dire picture of conditions, but we noted that past experience foretells better long-term returns following similar periods. Trying to effectively forecast how a set of circumstances will turn out will undoubtedly teach you a fantastic lesson in humility. There are thousands, if not hundreds of thousands, of variables in a global market, rendering a correct forecast of the macro future almost impossible. However, we use the circumstances that make other investors fearful to our advantage. We basically classify markets into one of two states: risk seeking or risk fearing. In a risk-fearing market like early 2020 and again today, we use investors' tendency to sell stocks into a declining market to our advantage. It gives us an opportunity to buy high-quality companies at significant discounts to their underlying worth. We are certainly aware that investing in parts of the economy during these periods may involve businesses that are slowing, sometimes for an extended period. However, we put our margin of safety criteria to work, combine it with a long-term time horizon, and provide liquidity to those investors that want to bail out into a selloff. This approach takes patience, a strong stomach at times and, most importantly, a deep understanding of the fundamental value of a business.

We are currently busier than we have been since the throes of the pandemic in early to mid-2020. Earnings expectations have become more reasonable. The cost of capital is now real, and the result is valuations have compressed. These conditions have given us a green light, and our pipeline of investment candidates is filling up. The improving buying opportunity is evident in the number of new 52-week lows across US exchanges, which is near the highest levels since the pandemic and of the past 5 years (Exhibit 1).

Exhibit 1: Bloomberg Total Number of New 52-Week Lows on US Exchanges



Source: Bloomberg/Artisan Partners. As of 30 Sep 2022. The Bloomberg Index of 52-week lows contains common stocks, ETFs and ADRs. **Past performance does not guarantee and is not a reliable indicator of future results.**

While our list of potential candidates is filling up, we are being patient. We added two new positions in Q3: Fiserv and Heineken. Fiserv is a provider of financial technology, core processing and payment processing services to financial institutions and merchants. The company reports three segments: acceptance (merchant acquiring), payments & networks (issuer processing and debit network), and fintech (core bank processing). Fiserv has strong market positions and scale across these businesses, but competitive intensity varies. In the acceptance segment, Fiserv owns Clover, a high-growth point-of-sale (POS) system forsmall and medium businesses, with similar annualized gross payment volume to Block's Square. However, Fiserv is receiving little credit for Clover. The market is overly concerned about the competitive nature of merchant acquiring and legacy processors losing market share to new entrants. We believe Fiserv's business is more resilient and will continue to grow in the medium term driven by its scale and Clover. Moreover, fintech and payments are good businesses that are undervalued by the market. Both businesses are in highly consolidated industries where scale advantages are critical, and revenues are sticky due to high switching costs. A high share of recurring revenue and profit, an attractive margin profile and high free cash flow conversion are characteristics that should provide downside protection, in our view. We started our position with shares selling for about 11X normalized operating profit. That is a below-average multiple for an above-average business.

Heineken is the second-largest brewer in the world behind Anheuser-Busch InBev. Heineken's brands and scale provide it with competitive advantages on margins, cash flow and the capacity to invest for growth. Also, Heineken's geographical exposures provide growth tailwinds. It has a relatively small presence in the competitive and shrinking US beer market and an outsized presence in emerging markets, which includes double-digit growing Vietnam. Importantly in the current environment, Heineken has been able to pass through cost inflation due to its strong brand portfolio and its exposure to the premium beer segment. The company's financial condition appears solid as its debt burden is reasonable and termed out well, it has strong free cash generation, and it benefits from the alcoholic beverage category's stable demand profile. An interesting aspect of our investment in Heineken involves the equity's dual share class structure. There is HEIO (Heineken Holding)—the share class we purchased—and HEIA (Heineken NV). The Heineken family controls Heineken through its majority stake in HEIO, which typically trades at a small discount to HEIA due to less liquidity, even though it has an equivalent economic interest. Not only is Heineken trading at the low end of its normal valuation range, but HEIO's discount to HEIA has expanded to its widest in decades as the usual arbitrage buyers have stepped away during the recent market stress. As a highly stable business, opportunities to purchase shares of Heineken at a large discount are infrequent, so we took advantage of the current market conditions.

We exited our position in Fresenius Medical Care, a vertically integrated provider of dialysis equipment and services. The company has experienced headwinds related to the pandemic, most notably due to the higher mortality rates found among dialysis patients. We anticipated the business would recover post-COVID and benefit from the secular growth of its end markets; however, the company has also suffered from cost inflation pressures and reimbursement challenges. Based on these factors, we chose to sell our remaining shares in favor of better opportunities.

Perspective

Various policy interventions and bailouts over the past couple decades have caused a number of market distortions. For example, there hasn't been a true cost of capital in the markets for many, many years now. As such, there's been very little penalty for companies that do wrong or risky things; for example, overleveraging their balance sheets hasn't cost much in terms of punitive covenants or high interest payments, corporations have made expensive acquisitions given the cheap cost of debt, and investors have encouraged stock buybacks at a greater and greater pace with the assistance of leverage. When your cost of capital is so low, it's easy to see why this has happened. As the cost of capital, and hence the discount rate, goes ever lower, the present value goes ever higher. It's just math. But it doesn't mean there is any less risk or greater certainty in the stream of cash flows.

Given this backdrop, the low-rate environment had supercharged the success of growth and momentum strategies. In this environment of free money, companies were rewarded for pursuing revenue, not profit, and many unproven and often questionable business models were allowed to operate. Investors in those companies enjoyed strong returns despite owning less proven streams of cash flows, much of which were expected to happen way out into the future (i.e., long duration stocks). On the other hand, value strategies that are typically associated with companies that have higher current cash flows as well as higher dividend payouts, have lagged to a significant degree. For disciplined investors with a rigorous process, this has been a large style headwind. You can see this in comparing the performance of the Russell 1000® Growth and Value Indices—the growth index has trounced the value index by over 120% over the past decade. This has reversed since late 2020, and value has finally started to outperform, markedly so on a YTD basis. It's been a very lonely decade to be a value investor, we assure you.

To our credit, we have held firm to our process, not willing to reduce our hurdle rates or pay higher and higher multiples for companies that are showing some semblance of growth, or alternatively, hide out in expensive safe havens. To our detriment, this has cost us relative performance points versus some of our peers and at times versus the index. However, we are focused on generating a positive absolute return for our investors and believe the cost of capital should always be reflected in the riskiness of the cash flows a business produces. That approach is more timeless and is less affected by the whims of the market. Fortunately, after over a decade, value strategies are beginning to get some traction again with investors.

ARTISAN CANVAS
Timely insights and updates from our investment teams and firm leadership
Visit www.artisancanvas.com

For more information: Visit www.artisanpartners.com

Investment Risks: International investments involve special risks, including currency fluctuation, lower liquidity, different accounting methods and economic and political systems, and higher transaction costs. These risks typically are greater in emerging markets. Securities of small- and medium-sized companies tend to have a shorter history of operations, be more volatile and less liquid and may have underperformed securities of large companies during some periods. Value securities may underperform other asset types during a given period. These risks, among others, are further described in Artisan Partners Form ADV, which is available upon request.

Unless otherwise indicated, the Artisan Strategy characteristics relate to that of an investment composite or a representative account managed within a composite. It is intended to provide a general illustration of the investment strategy and considerations used by Artisan Partners in managing that strategy. Individual accounts may differ, at times significantly, from the reference data shown due to varying account restrictions, fees and expenses, and since-inception time periods, among others. Where applicable, this information is supplemental to, and not to be construed with, a current or prospective client's investment account information. References to individual security performance relate to a representative account in the composite. Individual holding periods may differ.

For the purpose of determining the portfolio's holdings, securities of the same issuer are aggregated to determine the weight in the Strategy. The holdings mentioned above comprised the following percentages of a representative account within the Artisan Value Equity Strategy Composite's total net assets as of as of 30 Sep 2022: FedEx Corp 2.9%, Koninklijke Philips NV 1.4%, Netflix Inc 2.0%, Vertex Pharmaceuticals Inc 2.0%, Fiserv Inc 2.0%, Heineken Holding NV 0.8%. Securities named in the Commentary, but not listed here are not held in the portfolio as of the date of this report. Portfolio holdings are subject to change without notice and are not intended as recommendations of individual securities.

Securities referenced may not be representative of all portfolio holdings. Securities of the same issuer are aggregated to determine a holding's portfolio weight. Portfolio statistics calculations exclude outlier data and certain securities which lack applicable attributes, such as private securities. Artisan Partners may substitute information from a related security if unavailable for a particular security. This material is as of the date indicated and is subject to change without notice. Totals may not sum due to rounding.

Attribution is used to evaluate the investment management decisions which affected the portfolio's performance when compared to a benchmark index. Attribution is not exact, but should be considered an approximation of the relative contribution of each of the factors considered.

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.

Russell 1000® Value Index measures the performance of US large-cap companies with lower price/book ratios and forecasted growth values. Russell 1000® Index measures the performance of roughly 1,000 US large-cap companies. Russell 1000® Growth Index measures the performance of US large-cap companies with higher price/book ratios and forecasted growth values. The index(es) are unmanaged; include net reinvested dividends; do not reflect fees or expenses; and are not available for direct investment.

Frank Russell Company ("Russell") is the source and owner of the trademarks, service marks and copyrights related to the Russell Indexes. Russell® is a trademark of Frank Russell Company. Neither Russell nor its licensors accept any liability for any errors or omissions in the Russell Indexes and/or Russell ratings or underlying data and no party may rely on any Russell Indexes and/or Russell ratings and/or underlying data contained in this communication. No further distribution of Russell Data is permitted without Russell's express written consent. Russell does not promote, sponsor or endorse the content of this communication.

The Global Industry Classification Standard (GICS®) is the exclusive intellectual property of MSCI Inc. (MSCI) and Standard & Poor's Financial Services, LLC (S&P). Neither MSCI, S&P, their affiliates, nor any of their third party providers ("GICS Parties") makes any representations or warranties, express or implied, with respect to GICS or the results to be obtained by the use thereof, and expressly disclaim all warranties, including warranties of accuracy, completeness, merchantability and fitness for a particular purpose. The GICS Parties shall not have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of such damages.

This summary represents the views of the portfolio manager as of 30 Sep 2022. Those views and portfolio holdings are subject to change and Artisan Partners disclaims any obligation to advise investors of such changes. The discussion of portfolio holdings does not constitute a recommendation of any individual security.

Margin of Safety, a concept developed by Benjamin Graham, is the difference between the market price and the estimated intrinsic value of a business. A large margin of safety may help guard against permanent capital loss and improve the probability of capital appreciation. Margin of safety does not prevent market loss—all investments contain risk and may lose value. **Return on Capital (ROC)** is a measure of how effectively a company uses the money (borrowed or owned) invested in its operations. **Exchanged-Traded Funds (ETFs)** are securities that track an index, a commodity or a basket of assets like an index fund, but trade like a stock on an exchange. ETFs experience price changes throughout the day as they are bought and sold.

This material is provided for informational purposes without regard to your particular investment needs and shall not be construed as investment or tax advice on which you may rely for your investment decisions. Investors should consult their financial and tax adviser before making investments in order to determine the appropriateness of any investment product discussed herein. In no event shall Artisan Partners have any liability for direct, indirect, special, incidental, punitive, consequential (including, without limitation, lost profits) losses or any other damages resulting from the use of this material.

Artisan Partners Limited Partnership (APLP) is an investment adviser registered with the U.S. Securities and Exchange Commission (SEC). Artisan Partners UK LLP (APUK) is authorized and regulated by the Financial Conduct Authority and is a registered investment adviser with the SEC. APEL Financial Distribution Services Limited (AP Europe) is authorized and regulated by the Central Bank of Ireland. APLP, APUK and AP Europe are collectively, with their parent company and affiliates, referred to as Artisan Partners herein. Artisan Partners is not registered, authorised or eligible for an exemption from registration in all jurisdictions. Therefore, services described herein may not be available in certain jurisdictions. This material does not constitute an offer or solicitation where such actions are not authorised or lawful, and in some cases may only be provided at the initiative of the prospect. Further limitations on the availability of products or services described herein may be imposed.

This material is only intended for investors which meet qualifications as institutional investors as defined in the applicable jurisdiction where this material is received, which includes only *Professional Clients or Eligible Counterparties* as defined by the Markets in Financial Instruments Directive (MiFID) where this material is issued by APUK or AP Europe. This material is not for use by retail investors and may not be reproduced or distributed without Artisan Partners' permission.

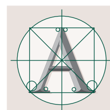
In the United Kingdom, issued by APUK, 25 St. James's St., Floor 3, London SW1A 1HA, registered in England and Wales (LLP No. OC351201). Registered office: Reading Bridge House, Floor 4, George St., Reading, Berkshire RG1 8LS. In Ireland, issued by AP Europe, Fitzwilliam Hall, Fitzwilliam Pl, Ste. 202, Dublin 2, D02 T292. Registered office: 70 Sir John Rogerson's Quay, Dublin 2, D02 R296 (Company No. 637966).

Australia: This material is directed at wholesale clients only and is not intended for, or to be relied upon by, private individuals or retail investors. Artisan Partners Australia Pty Ltd is a representative of APLP (ARBN 153 777 292) and APUK (ARBN 603 522 649). APLP and APUK are respectively regulated under US and UK laws which differ from Australian laws and are exempt from the requirement to hold an Australian financial services license under the Australian Corporations Act 2001 in respect to financial services provided in Australia.

Canada: This material is distributed in Canada by APLP and/or Artisan Partners Distributors LLC, which conduct activities in Canada under exemptions from the dealer, portfolio manager and investment fund manager registration requirements of applicable Canadian securities laws. This material does not constitute an offer of services in circumstances where such exemptions are not available. APLP advisory services are available only to investors that qualify as "permitted clients" under applicable Canadian securities laws.

© 2022 Artisan Partners. All rights reserved.

For Institutional Investors – Not for Onward Distribution

A R T I S A N  P A R T N E R S