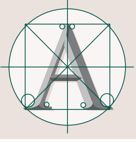


Artisan U.S. Mid-Cap Value Strategy

QUARTERLY
Commentary

As of 30 June 2023

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.

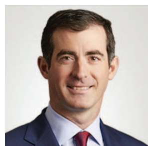
Attractive Business Economics

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 June 2023	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception[2]
Composite — Gross	**4.71**	**10.09**	**13.50**	**17.11**	**7.22**	**8.28**	**11.98**
Composite — Net	**4.46**	**9.58**	**12.44**	**16.02**	**6.22**	**7.27**	**10.93**
Russell Midcap® Value Index	3.86	5.23	10.50	15.04	6.83	9.03	9.27
Russell Midcap® Index	4.76	9.01	14.92	12.50	8.45	10.32	9.29

Annual Returns (% USD) 12 months ended 30 June

	2019	2020	2021	2022	2023
Composite — Net	**0.66**	**-13.99**	**54.46**	**-10.07**	**12.44**

Source: Artisan Partners/Russell. Returns for periods less than one year are not annualized. [2]Composite inception: 1 April 1999.

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

A strong rally in the month of June lifted the Russell Midcap® Value Index's Q2 return into positive territory. Since last October, US stocks have been climbing a proverbial wall of worry as fears of a looming recession have yet to materialize amid resilient growth and still tight labor and real estate markets. On the earnings front, year-over-year earnings growth for US equities was negative for a second consecutive quarter, but forward guidance was better than expected, and current bottom-up earnings estimates show year-over-year earnings growth turning positive in the second half of 2023. Not surprisingly, rising equity prices have coincided with falling market volatility. In June, the VIX volatility index dropped to its lowest levels since January 2020, just prior to the pandemic.

Sentiment has also benefited from inflation easing. Better inflation readings and the Federal Reserve's decision in June to pause interest rate hikes for the first time since March 2022, when it began its aggressive monetary tightening campaign, have boosted hopes of a soft economic landing. Despite the pause, Fed Chair Jay Powell signaled that additional hikes may be necessary if inflation proves sticky as core inflation is still running hot at above 5%. However, any additional tightening could add to existing pressures in the banking and brokerage sector, which despite relative calm is still contending with funding pressures and unrealized losses on fixed income securities due to rising interest rates. Current expectations are for at least two additional rate hikes by year end.

Returns in the Russell Midcap® Value Index were led by the industrials and consumer discretionary sectors as shares of more economically sensitive companies benefited from an improved economic outlook. Most of the other sectors finished with low single-digit gains. The weakest sectors—materials, utilities and consumer staples—suffered modest declines.

For the broader US equity market in 2023, market breadth has been quite narrow, with a handful of tech-oriented mega caps that have large index weights driving a disproportionate share of the gains. Certainly, excitement related to artificial intelligence has been a driver of the rally, but we also believe investors are gravitating to secular growth companies, viewing them as winners regardless of the economic environment. Additionally, last year's selloff and investor positioning coming into the year set these stocks up well for their subsequent rebounds. Although AI is a small pocket where we see revived animal spirits, we don't see this as redux of 2021 when meme stock mania took hold and speculation was rampant.

Performance Discussion

The portfolio outperformed the Russell Midcap® Value Index in Q2. Stock selection was positive, with notable strength among our financials, technology and health care stocks. In the financials sector, our results were led by our bank stocks—an area we added to in Q1 amid the tumult in the regional banking sector. Leading the way was First Citizens BancShares, which also happened to be our top individual contributor in Q2 and year to date. In the technology sector, technical equipment company Vontier was a winner, and in the health care sector, global medical technology company Baxter International , a Q1 purchase, drove our sector results. We are pleased to see recent purchases contributing favorably, but more importantly, it shows that our research process is working well as we endeavor to find high-quality businesses selling cheaply.

Headquartered in Raleigh, North Carolina, and one of the largest family-controlled banks in the US, First Citizens BancShares (FCNCA) was a big winner from its acquisition of the failed Silicon Valley Bank. FCNCA purchased $72.1 billion in loans at a deeply discounted price of $16.5 billion. The transaction adds scale, increases geographic diversity and is financially attractive with downside protections from a loss-sharing agreement with the FDIC. FCNCA is now one of the top-15 largest US banks. The bank is run by and almost fully controlled by CEO Frank Holding and his family members. They have significant ownership, aligning their interest with minority shareholders like us. They've done an admirable job of growing the bank by keeping a strong capital and liquidity profile that allows for opportunistic M&A during times of market stress, like we just experienced in March. In the Global Financial Crisis, FCNCA used its position of strength to acquire when others could not, and during the COVID-induced stress of 2020, it flexed its muscles again with the acquisition of CIT at a great price.

Vontier was a 2020 spinoff from Fortive, itself a spinoff from Danaher. The mobility technologies segment (~76% of total sales) provides fuel dispensing and related software and services to retail and commercial gas stations operating under the Gilbarco Veeder-Root and Orpak Systems brands. At the time of our initial purchase in Q2 2022, the stock was weak for a few reasons. First, an upgrade cycle to EMV, a new payment technology, pulled forward sales into 2021, resulting in a sharper-than-expected hit to 2022–2023 sales. Sentiment was also weak due to supply chain disruptions, concerns about fuel consumption amid higher gas prices in the early months of the Ukraine war and longer term fears regarding electric vehicle market share growth. With these issues easing as of late and the stock selling cheaply, shares have turned higher on steady results. In addition to its cheap valuation, we are attracted to its free cash flow generation, high returns on capital, relatively asset-light business model and strong positioning in an industry that benefits from regulatory-driven demand.

Baxter provides essential products in renal care, medication delivery, advanced surgery, clinical nutrition, pharma and acute therapies. When we purchased it, the stock traded near its cheapest valuation in a decade due to pessimism regarding raw material costs, supply chain issues, semiconductor availability and foreign exchange headwinds that all pressured earnings and free cash flow. However, none of these are permanent conditions. Additionally, Baxter is in the process of selling several non-core operations, which should raise cash and simplify the business longer term. Despite its current growth challenges, we believe the company should return to robust free cash

flow generation as supply chain pressures abate. Baxter also meets our criteria for sound financial condition due to its high interest coverage and well-termed out debt on the balance sheet. In April, shares benefited from reports of interest from industry players and private equity in acquiring Baxter's biopharma solutions business.

An additional top performer was AutoNation, one of the largest auto retailers in the US. Due to strong demand from consumers and tight supply of new and used autos, dealerships like AutoNation are earning strong profits on each vehicle sold. While we know these "excess" profits are not a permanent condition, as shareholders we are receiving the direct benefit of the elevated earnings as management is retiring stock aggressively. Even when earnings return to normal levels, which could be years away, AutoNation's business trades for a modest single-digit earnings multiple based on our estimates of normalized earnings power. Further, the auto retailing business is less cyclical than the auto industry due to roughly half of gross profit being tied to customer care for vehicle repairs. The business also earns superior returns on capital due to being relatively asset light and having a variable cost model that can help protect margins in a downturn. Given these characteristics, the business generates strong free cash flow through cycles. The primary use of cash flow has been repurchasing stock, which we believe is a wise use of capital at these prices.

On the downside, our industrials, consumer staples and energy holdings underperformed. In the industrials sector, relative performance was held back by our lack of exposure to passenger airlines and commercial services & supplies stocks and underperformance among our ground transportation and aerospace holdings. In the consumer staples and energy sectors, laggards were Tyson Foods, a foods processor, and NOV, an energy services company.

Tyson Foods is the biggest US beef and poultry producer. Shares pulled back on disappointing quarterly results and a weaker outlook due to continued margin pressures in its chicken and beef segments, which make up roughly two thirds of company sales. Broadly, costs remain up while volumes are dipping. That's not a good combination for earnings. A range of continuing inflationary pressures has been driving up freight, labor and livestock feed costs. Margins in the prepared foods business were the lone bright spot. For the beef business, sales have been hurt by the consumer trading down to lower priced products, while livestock prices have been high due to reduced supply in a tough cattle market. Many of these factors are cyclical, and the history of this business has shown that it would be a mistake for investors to believe good or bad times are permanent.

NOV sells equipment and components used in oil and gas drilling and production operations. Shares have been digesting prior year gains amid a general rotation away from energy stocks. NOV's Q1 earnings were hurt by lingering supply chain issues resulting in production interruptions and softening activity in North America related to low natural gas prices. Improving offshore and international land markets were positives. NOV is our sole energy stock. Unlike most of the sector that lacks an economic moat, NOV through several significant acquisitions in the 1990s and 2000s has transformed itself into a leader in many attractive high-margin lines of business. NOV has a moat around the rig technologies business and unlike many energy-focused companies, has a history of generating free cash flow and acceptable returns on tangible capital. NOV's valuation remains undemanding, in our view, and we believe margins can continue their rise as offshore activity increases and cost savings opportunities are realized.

An additional detractor was Warner Bros Discovery (WBD). The stock pulled back after a strong Q1 yet remains up over 30% through the first half of 2023. Shares of WBD and other communication services stocks rallied strongly to start the year after trailing in 2022. WBD is a global media and entertainment company that is the result of the 2022 spin-merger of Discovery and the WarnerMedia division of AT&T. We believe the total portfolio of content and entertainment assets should provide a compelling direct-to-consumer offering to attract viewers and the scale to invest in original content. The company unveiled its refreshed streaming service in April, rebranded as Max. There is a lot of opportunity, but there's also uncertainty related to the merger's integration and realized cost synergies. Thus far the company is showing progress on cost synergy realization, debt reduction and free cash flow generation. Our view is streaming is a scale and intellectual property business that will result in a few large winners, and we believe Max will be among this small group.

Portfolio Activity

In Q2, we made two new purchases: Bio-Rad Laboratories and Dollar General. Bio-Rad Laboratories (BIO) manufactures and distributes life science research and clinical diagnostics products. The life sciences segment makes instruments, systems, reagents and consumables used for research and biopharmaceutical manufacturing. The clinical diagnostics segment manufactures test systems, primarily in vitro diagnostics (IVD), which are tests done on human samples such as blood and urine. BIO stock has been under pressure due to receding COVID-related revenues, persistent supply chain issues and concerns about slowing life science tool end markets. BIO stock has come down from an $820 peak in September 2021 to ~$370—its pre-COVID price. The lower expectations embedded in today's asking price reduce risk while we wait for business headwinds to dissipate. A key component of our investment case is BIO's large investment (~$8 billion and 47% of shares outstanding) in German peer Sartorius, a biopharmaceutical research solutions provider. BIO also has net cash and securities outside of its Sartorius stake. For context, BIO is an ~$11.5 billion market cap company. BIO is under-followed on Wall Street, and screens on enterprise value do not capture BIO's stake in Sartorius. As a result, quantitative and casual market watchers don't appreciate the cheap valuation.

Dollar General (DG) operates a chain of discount retail stores in the US. DG has a strong market position and faces less competition than other

discounters due to its largely rural footprint. The business's value proposition is everyday low prices, a convenient format and proximity. DG clearly benefited from COVID stimulus checks reflected in the bump it experienced in revenues and margins. However, the effects have worn off. The lower end consumer is being hurt by inflation, stiffer economic conditions, lower tax refunds and reduced SNAP benefits. Margins are also under pressure due to labor costs. DG's management is relatively new to their roles, which possibly adds to the current mix of concerns. On the positive side, discount retail due to its trade down feature tends to be a defensive business during economic slowdowns. We also believe the management team, culture and capital allocation are solid. The company has leverage due to capital expenditures, but interest coverage of 10X is strong. From a valuation perspective, the froth from the pandemic is gone. Shares now trade at 2017 price-to-earnings levels in the mid-teens compared to the low- to mid-twenties for much of 2020 to 2022. So, we aren't paying for margin upside or store growth. Those would be bonuses. If the company can continue to grow revenues, generate cash flow and buy back stock, we still see a path to success.

We funded these new purchases in part from sales of Synchrony Financial, a consumer financial services company; Northern Trust, a provider of asset servicing and investment management; and LibertySiriusXM Group, a tracking stock for Sirius XM Holdings and Live Nation Entertainment. We exited all three holdings in favor of better opportunities.

Perspective

Like many investors, we are struck by the relative resilience of equity markets. If we told you the S&P 500® Index's earnings per share was expected to decline for a third consecutive quarter, the yield curve was the most inverted in over 40 years and the federal funds rate increased 500bps in the short span of just 15 months, would you expect stocks to be meaningfully higher from a year ago? Our observation is not to imply that stocks should be higher or lower than their current levels. Stocks were pricing in a recession in late 2022. Today, they are not. When markets were lower, there was more fear. As pessimism has been replaced by optimism, there is paradoxically more risk now than there was when fear predominated.

In our mid-cap value corner of the market, valuations are quite reasonable. The Russell Midcap® Value Index trades for 15.1X FY1 estimated earnings. This compares to its average of 16.1X and median of 15.4X based on our data going back to December 1997. The Russell Midcap® Growth Index trades at 28.0X FY1 estimates. The average and median valuation spreads between these indices have been 9.6 and 6.5 percentage points over the past 25 years. Today, it's 12.9 percentage points. So, we feel good about our opportunity set today and the long-term forward return potential that exists among value stocks. We cannot predict the next economic downturn, but we can control our process and where we focus our efforts. We have historically weathered a mix of market conditions by focusing on the fundamentals of our investment process, and we expect this to continue in the future.

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Investment Risks: 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 U.S. Mid-Cap Value Strategy Composite's total net assets as of as of 30 Jun 2023: First Citizens BancShares Inc 4.5%, Vontier Corp 3.3%, Baxter International Inc 3.0%, AutoNation Inc 2.0%, NOV Inc 2.1%, Tyson Foods Inc 2.0%, Warner Bros Discovery Inc 1.6%, Bio-Rad Laboratories Inc 1.5%, Dollar General Corp 1.4%. Securities named in the Commentary, but not listed here are not held in the portfolio as of the date of this report.

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 Midcap® Value Index measures the performance of US mid-cap companies with lower price/book ratios and forecasted growth values. Russell Midcap® Index measures the performance of roughly 800 US mid-cap companies. Russell Midcap® Growth Index measures the performance of US mid-cap companies with higher price/book ratios and forecasted growth values. S&P 500® Index measures the performance of 500 US companies focused on the large-cap sector of the market. The VIX Index estimates the expected volatility of the S&P 500® Index, calculated by using the midpoint of real-time S&P 500® Index option bid/ask quotes, and is commonly used to proxy market risk and/or uncertainty. The index(es) are unmanaged; include net reinvested dividends; do not reflect fees or expenses; and are not available for direct investment.

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Yield curve measures the difference in yields across maturities of US Treasury bonds. **Free Cash Flow** is a measure of financial performance calculated as operating cash flow minus capital expenditures. **Interest coverage** measures a company's ability to make interest payments on its debt by calculating earnings before interest and taxes divided by total interest expense. **Price-to-Earnings (P/E)** is a valuation ratio of a company's current share price compared to its per-share earnings.

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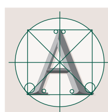
A R T I S A N  P A R T N E R S