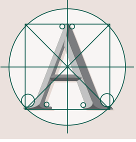

Artisan Value Equity Strategy

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[1]
Composite — Gross	**7.72**	**16.37**	**23.54**	**20.04**	**10.76**	**10.85**	**9.23**
Composite — Net	**7.54**	**15.98**	**22.71**	**19.23**	**10.01**	**10.09**	**8.42**
Russell 1000® Value Index	4.07	5.12	11.54	14.30	8.10	9.21	7.54
Russell 1000® Index	8.58	16.68	19.36	14.09	11.91	12.64	9.75

Annual Returns (% USD) 12 months ended 30 June

	2019	2020	2021	2022	2023
Composite — Net	**1.35**	**-6.18**	**55.10**	**-10.94**	**22.71**

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

A strong rally in the month of June lifted the Russell 1000® 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 about 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 1000® Value Index were led by the industrials, consumer discretionary and communication services sectors as shares of more economically sensitive companies benefited from an improved economic outlook. The weakest sectors—energy and utilities—suffered modest declines. The remaining sectors finished with low- to mid-single-digit gains.

For the broad US equity market, which contains both growth and value segments, market breadth has been quite narrow year to date, 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 1000® Value Index in Q2, expanding its YTD lead over the benchmark. In Q2, stock selection was positive, driven by strong absolute and relative returns from our communication services and health care holdings. It's worth noting that our top contributors in these sectors—Alphabet and Meta Platforms in communication services and Philips in health care—were our three biggest detractors for the 2022 calendar year. As 2023 began, all three stocks were heavily out of favor and selling at highly attractive valuations. We are pleased to see that we were rewarded for maintaining our investment discipline—focusing on process rather than solely on outcomes. As Benjamin Graham said, "In the short run, the market is a voting machine, but in the long run, it is a weighing machine."

Additionally, portfolio sector positioning was beneficial in Q2, helped by an above-benchmark weighting in communication services and a lack of utilities investments. Sector positioning was a performance headwind for much of 2020 to 2022, primarily due to our overweight in communication services. However, we had strong stock selection over those years. Year to date, we have had both sector allocation and stock selection working in our favor. Over the long run, we believe sector allocation effects will largely balance out and the lion's share of relative performance results should be driven by stock selection. As a reminder, we are bottom-up stock pickers and don't make top-down allocations. Hence, sector weightings are simply a residual of individual stock-by-stock decisions.

Alphabet and Meta are two of the aforementioned mega-cap stocks that have benefited from AI enthusiasm. These companies are well-positioned to leverage artificial intelligence across their services to reinforce their dominant market positions, whether in search, video and cloud for Alphabet or in social media for Meta. As value investors, we're less focused on how AI can amplify earnings growth and instead more concerned with how existing cash streams could be disrupted by AI. We also owned these stocks before AI was in vogue. We've held Alphabet since 2014 and Meta since 2018. As of June 30, Meta and Alphabet were our No. 1 and No. 2 largest positions in the portfolio. As classic value investors, we are often asked why we hold these growth-oriented tech stocks. First, we're not opposed to growth; we like growth. However, one could argue these were actually value stocks just a few months ago when Meta was selling at less than 10X next year's estimated earnings and Alphabet was selling around 17X, which was cheaper than the broader equity market despite Alphabet's much better return and cash flow generation capabilities. Both stocks have earned their way to the top of the portfolio based on strongly meeting each of our three margin of safety criteria: attractive business economics, sound financial condition and attractive valuation. Even after recent gains, both stocks still sell at undemanding valuations relative to their ability to compound value over time. While Alphabet and Meta are included in the "magnificent 7" mega-cap stocks, they are trading much cheaper than the others, especially Nvidia at ~60X and Tesla at ~80X next year's estimated earnings. We are comfortable with their current position sizes and will continue to closely manage position sizing as changes to fundamentals and market prices dictate.

Shares of health care technology company Philips have snapped back after being down nearly 80% and losing €44 billion in market value from their April 2021 highs to their November 2022 lows. The stock

was punished due to the recall of the company's first-generation CPAP machine. We respected the concerns related to litigation liabilities, but we also know that markets tend to overreact, and we thought the drawdown was excessive given the likely range of outcomes. In April, the company announced it had taken a €575 million provision in anticipation of settling the economic loss litigation in the US, which was much lower than anticipated and quarterly operating results showed improvement as supply chain issues have eased. The larger overhang remains personal injury suits. We appreciate that until there is greater clarity on the total settlement cost, the stock may remain under pressure, but at today's asking price and based on our estimates of intrinsic value, we continue to believe this can be a successful investment.

Another strong performer in the health care sector was Baxter, a global medical technology company that provides essential products in renal care, medication delivery, advanced surgery, clinical nutrition, pharma and acute therapies. When we initiated our position in Q1 of this year, 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.

On the downside, our financials holdings trailed their benchmark peers. US Bancorp (USB) and Goldman Sachs were laggards. USB shares continued to sell off following the mid-March banking crisis before bottoming in mid-May. USB is a bank we have known for years. It is well-managed and has a solid balance sheet. As one of the largest banks, it's less impacted by the turmoil affecting smaller institutions as depositors seek the safest places to store their money. However, the dynamic of low-cost deposits flowing out of the system and into higher yielding money markets and bond markets, increased price competition for remaining deposits and the significantly inverted yield curve are major headwinds for bank earnings prospects generally. Nevertheless, we believe the range of probabilities and long-term outcomes are tilted in our favor at current valuations.

Shares of Goldman Sachs, a global financial services firm, were slightly lower on the quarter. Goldman's returns have been pressured by a slow M&A environment as Federal Reserve rate increases and macro uncertainty have weighed on deal activity. Also, Goldman's foray into consumer lending—a business that is outside its traditional core expertise—has been a disappointment, and it's now choosing to scale back its consumer ambitions. On the positive side, the company's asset and wealth management businesses are performing well.

Though its financial results have ebbed over the past 12–24 months, Goldman is still a best-in-class franchise with a self-perpetuating model in which its premier brand and higher compensation attracts top talent and begets more success. Additionally, the balance sheet is well-capitalized, and the stock sells cheaply at ~1X book value.

Our biggest detractor overall was Warner Bros Discovery (WBD). WBD pulled back after a strong Q1 yet remains up over 30% through the first half of 2023. 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

We didn't have any new purchases in Q2. Given the relative sanguine market conditions in Q2, there were fewer great buying opportunities in US large caps. Just like a batter that tries to work the count to get a good pitch, we seek to be patient and opportunistic investors. Our purchase activity during the quarter was instead centered on adding to existing names that we believe are most undervalued, such as USB and Philips.

Regarding overall portfolio positioning, financials is our largest sector weighting at 26.0%, which is up from ~20% from a year ago, largely due to our Q1 purchases amid the banking crisis. Besides USB, we also hold Bank of America and PNC Financial Services. All three are among the top 10 biggest US banks by assets, and we believe recent industry turmoil should only strengthen the positions of these big banks.

On the sales side, we exited Synchrony Financial, a consumer financial services company; Raytheon Technologies, an aerospace and defense company; and Vertex Pharmaceuticals, a biotechnology company. In all three cases, we recycled the capital into names we feel are better values today.

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 the large-cap value corner of the market, valuations are quite reasonable. The Russell 1000® Value Index trades for 15.2X FY1 estimated earnings. This compares to its average of 15.3X and median of 14.9X based on our data going back to 1997. The Russell 1000® Growth Index trades at 29.0X FY1 estimates. The average and median valuation spreads between these indices have been 7.7 and 6.0 percentage points over the past 25 years. Today, it's 13.8 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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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 Jun 2023: Warner Bros Discovery Inc 1.1%, Meta Platforms Inc 4.7%, Alphabet 3.9%, Baxter International Inc 2.6%, Koninklijke Philips NV 2.0%, The Goldman Sachs Group Inc 2.0%, The PNC Financial Services Group Inc 2.5%, US Bancorp 2.7%, Bank of America Corp 2.4%. Securities named in the Commentary, but not listed here are not held in the portfolio as of the date of this report.

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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. 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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This summary represents the views of the portfolio manager as of 30 Jun 2023. 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.

Free Cash Flow is a measure of financial performance calculated as operating cash flow minus capital expenditures. **Price-to-Earnings (P/E)** is a valuation ratio of a company's current share price compared to its per-share earnings. **Book Value** is the net asset value of a company, calculated by total assets minus intangible assets and liabilities. **Return on Capital (ROC)** is a measure of how effectively a company uses the money (borrowed or owned) invested in its operations.

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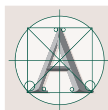
A R T I S A N  P A R T N E R S