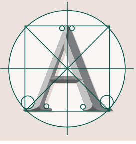


Artisan Value Fund

QUARTERLY
Commentary

Investor Class: ARTLX | Advisor Class: APDLX | Institutional Class: APHLX

As of 30 June 2024

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.

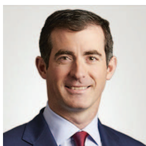
Attractive Business Economics

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 (%)

			Average Annual Total Returns				
As of 30 June 2024	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception
Investor Class: ARTLX	**-2.41**	**6.03**	**13.78**	**7.36**	**12.55**	**8.97**	**8.24**
Advisor Class: APDLX	**-2.36**	**6.15**	**13.90**	**7.55**	**12.72**	**9.12**	**8.32**
Institutional Class: APHLX	**-2.36**	**6.14**	**13.94**	**7.58**	**12.78**	**9.20**	**8.41**
Russell 1000® Value Index	-2.17	6.62	13.06	5.52	9.01	8.23	7.48
Russell 1000® Index	3.57	14.24	23.88	8.74	14.61	12.51	10.26

Source: Artisan Partners/Russell. Returns for periods less than one year are not annualized. Class inception: Investor (27 March 2006); Advisor (1 April 2015); Institutional (26 July 2011). For the period prior to inception, each of Advisor Class and Institutional Class's performance is the Investor Class's return for that period ("Linked Performance"). Linked Performance has not been restated to reflect expenses of the Advisor or Institutional Class and each share's respective returns during that period would be different if such expenses were reflected.

Expense Ratios (% Gross/Net)	ARTLX	APDLX	APHLX
Semi-Annual Report 31 Mar 2024[1]	1.07/0.98[2,3]	0.96/0.88[2,3]	0.83/—
Prospectus 30 Sep 2023[2]	1.10/1.07[3,4]	0.97/0.88[3]	0.85/—

[1]Unaudited, annualized for the six-month period. [2]See prospectus for further details. [3]Net expenses reflect a contractual expense limitation agreement in effect through 31 Jan 2025. [4]There was no expense limit prior to July 1, 2023. Effective July 1, 2023, expense limit was 0.98%.

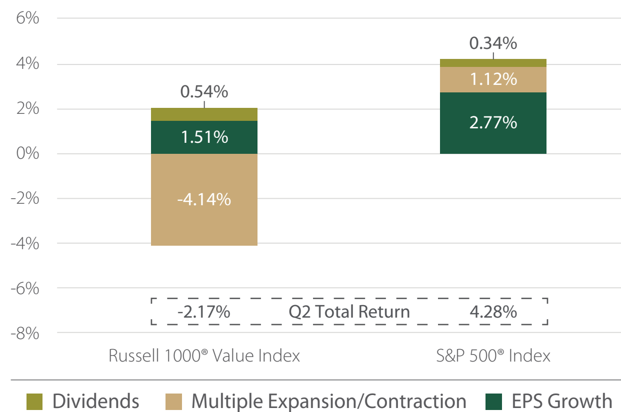
Past performance does not guarantee and is not a reliable indicator of future results. Investment returns and principal values will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than that shown. Call 800.344.1770 for current to most recent month-end performance.

Investing Environment

Following broad market participation that drove US equities higher in late 2023 and early 2024, markets narrowed in Q2, with a handful of mega-cap technology names lifting the S&P 500® Index to all-time highs on the AI FOMO (artificial intelligence "fear of missing out") trade. NVIDIA, Apple and Microsoft alone contributed 85% of the S&P 500®'s 4.28% Q2 return. However, due to the market's narrow breadth in Q2, the index's strong headline result was not representative of the average stock's performance. Most US stocks were in fact negative returners, with the median S&P 500® Index stock down -3.20%. Value stocks trailed, as did mid and small caps, with the Russell indices for these style and size categories each returning between -2% to -4%. Large-cap value stocks as measured by the Russell 1000® Value Index returned -2.17%. Most sectors within the Russell 1000® Value Index were weak. The worst performing was consumer discretionary—down about 7%. Additional laggards were the health care, materials and communication services sectors. Exceptions on the upside were utilities and consumer staples. Given their higher leverage, utilities were beneficiaries of falling longer term bond yields as US inflation continues to cool.

Given the meaningful outperformance by large-cap growth stocks, which drove the broad large-cap US indices higher, one might conclude that equity returns have simply followed earnings growth. However, as shown in Exhibit 1, Q2's variance in returns between the S&P 500® and Russell 1000® Value Indices was mostly attributable to shifting valuations—multiple expansion of the former and multiple contraction of the latter. We will leave it to readers to draw your own conclusions about the market's behavior. We will only point out that value stocks, which were already attractively valued relative to growth stocks based on history, have become even cheaper.

Exhibit 1: Size/Style Returns Driven by Multiple Expansion/Contraction
Q2 2024 Sources of Total Return



Source: Artisan Partners/FactSet/Russell/S&P. Multiple expansion/contraction represents price to earnings ratio. **Past performance does not guarantee future results.**

Performance Discussion

Our portfolio modestly trailed the Russell 1000® Value Index. Underperformance in the industrials and consumer staples sectors was counterbalanced by favorable stock picking in the communication services and consumer discretionary sectors. Our above-benchmark weighting in the communication services sector and a lack of utilities holdings also negatively impacted our relative return.

In the industrials and consumer staples sectors, Airbus and Diageo were key detractors. Airbus, the world's largest aerospace company, lowered its FY2024 profits and free cash flow expectations while also slashing the number of aircraft deliveries to 770 from 800 due to overall supply chain challenges as it's contending with shortages in engines, aerostructures and cabin interiors. As a result, the production ramp-up of A320 narrow-body planes to 75 deliveries per month was also pushed out from 2026 to 2027. Shares naturally pulled back on the news. Despite these setbacks, we believe Airbus remains in a strong strategic position in the global commercial aerospace duopoly. Airbus has steadily taken market share in the global installed fleet over the past 20 years, largely driven by its A320 family, and Airbus remains well positioned over the next decade to continue capturing share given the A320's clear performance edge over Boeing's 737 MAX, even aside from the MAX's well-publicized quality issues. Airbus remains a well-run company, with a leading market share, a higher quality product and a net cash balance sheet, and shares are reasonably valued at a mid-teens P/E.

Diageo is the largest spirits company in the world by revenue, with over 200 brands to choose from. Shares have remained under pressure since our initial purchase in December 2023, when the stock was already trading at multiyear trough multiples. More than half of its operating profits come from North America where sales have been sluggish, while sales have been especially weak in Latin America and the Caribbean. Growth is normalizing after a COVID-induced bounce, and consumers have been trading down to cheaper value alternatives, which is a headwind for Diageo's premium brands. Although spirits are more cyclical than other staples, the company's growth prospects are better long term, and we believe the current situation has provided us an attractive investment opportunity. The secular concerns hanging over the stock are a potential generational shift away from alcoholic beverages and the rise of GLP-1 weight-loss drugs that may also reduce the desire for alcohol, sugar and snacks. The first set of issues appear fixable, and we believe they should prove temporary. In the near term, margin expansion will likely be constrained, but the company generates meaningful free cash flow (FCF) and returns it to shareholders through dividends and share repurchases. Over the past five years, Diageo generated £12 billion FCF and returned £16 billion to shareholders. With regard to the

secular concerns, the evidence is mixed. The potential health benefits of GLP-1s are tremendous, but we are unconvinced that these drugs will change broad consumption habits in a sustainable manner. Ultimately, we believe Diageo is a high-quality compounder caught in a bad narrative cycle.

Among our other key detractors was Baxter International, a provider of essential products in renal care, medication delivery, advanced surgery, clinical nutrition, pharma and acute therapies. Though quarterly results beat expectations and the company raised guidance, shares were down because some of the upside to results was in the renal care business, which is being sold to Carlyle Group, whereas there was weakness in its healthcare services and technologies business—the legacy Hillrom business that it acquired in 2021. Baxter has sought to transform the company by selling several non-core operations, which will raise cash and simplify the business longer term as it focuses on profitable growth. Last year, it sold its BioPharma Solutions business at a significant premium, and this year it is exiting the kidney business. Given the company's growth challenges over the past few years, patience among investors seems to be lacking. In our view, there is significant pessimism embedded in the stock price as it sells cheaply based on our sum-of-the-parts valuation analysis.

Turning to the positive side of the ledger, our biggest gainers this quarter were Alphabet, Philips and Texas Instruments. Alphabet is one of the aforementioned mega-cap stocks that has benefited from AI enthusiasm, though we've owned Alphabet since 2014—years before AI was the "next big thing." 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. The company continues to perform well. In the company's latest quarter, revenue growth was strong in its search (+14% Y/Y) and YouTube (+21% Y/Y) businesses, and Google Cloud revenue growth accelerated to 28% Y/Y, with management citing the benefits of AI initiatives. Alphabet also instituted its first ever dividend and authorized a new $70 billion stock buyback. This comes shortly after Meta Platforms, which we also hold in the portfolio, also authorized its first ever dividend. The introductions of dividend payouts offer reassurance these companies' prodigious free cash flow generation will be allocated prudently. Shares sell for 21X 2025 expected earnings, which remains undemanding, in our view, given Alphabet's cash flow generation and ability to compound value over time.

Uncertainty regarding potential litigation liabilities related to Philips' first-generation CPAP machine, which has been an overhang on the stock, was removed upon the health care technology company reaching a $1.1 billion settlement over claims the breathing device harmed users. The settlement's dollar amount is in line with our expectations but looks to have been much lower than others' views given the stock's immediate 30%-plus price move on the announcement. With the litigation settled, the company can return to focusing on the fundamentals of the underlying businesses and fulfilling its requirements under the consent decree with the US government. The consent decree provides a roadmap of required actions and prohibitions—a process likely to take three years to conclude. As part of the consent decree, Philips is prohibited from selling CPAP or BiPAP sleep devices in the US. However, Philips may still service sleep and respiratory care devices already with health care providers and patients and may continue to sell other products in the US. Further, it does not impact the company's sales outside the US. The overall terms are as expected, and there is now a path forward for Philips to eventually return to the market.

Texas Instruments (TXN) is one of the world's largest semiconductor companies, with a dominant share of the analog semiconductor market. With expectations already low, shares benefited from recent quarterly results offering signs that cyclical end markets are bottoming. We established our position in TXN in October 2023 when the stock was in the low $140s, which was ~25% lower than it had been trading as recently as July 2023. The stock has since recovered and is now selling for over $200 in July. Aside from concerns about the semiconductor cycle related to the industry's current overcapacity and high inventories, the stock had been under pressure due to the company's $5 billion per year capital expenditure plan. Taking advantage of tax credits under the CHIPS Act, TXN is building more 300mm wafer fabs in the US to extend its low-cost manufacturing advantage, expand production and bring supply control in a geographically dependable region. TXN is making a long-term bet, but it will mean forgoing free cash flow in the short term. Given management's routine focus on free cash flow growth per share as the primary metric to measure success, the change in strategic direction created some confusion among market participants. TXN shares are rarely cheap, so last year we took advantage of the market's nearsightedness to buy a great company at a reasonable high-teens P/E valuation. The company has a strong competitive moat, an enviable portfolio of long-duration chips, industry leading margins, a consistent history of free cash flow generation and record of disciplined capital allocation.

Portfolio Activity

We made one new purchase in Q2, adding PayPal Holdings, a financial technology company that enables digital and mobile payments between consumers and merchants. PayPal has world-class assets. It operates the largest two-sided payment network (ex-China); owns Venmo, the largest peer-to-peer payment network (ex-China); and owns Braintree, the third-largest modern payment service provider (PSP), which is growing at a similar pace to peers, such as Stripe and Adyen. Each of the PSPs are taking share from legacy competitors such as Worldpay, with significant runway left on remaining share gains. As the original e-commerce payment processor with years of history in the marketplace, PayPal has access to a large trove of customer data, a first-class risk engine and embedded consumer and merchant trust. This is difficult for newer peers to replicate without time and investment. Post-COVID, PayPal's shares have been pressured by intensifying competition, the threat of which has seemingly been exacerbated by prior management missteps. Shares trade for under 14X next year's expected earnings, which have been

reset materially lower over the past year due to depressed expectations. This is an attractive entry point to purchase a stake in a business with above-average—and improving—unit economics and a strong balance sheet. Competent new management is already leaning on the company's strong financial position to maximize the value of these assets. While we wait for tangible results, we should have plenty of free cash flow pointed back at us in the form of share repurchases.

We had no sales this quarter, but we did trim a few of our winners, such as Alphabet and Meta Platforms, on strength.

Perspective

"It's a market of stocks, not a stock market."

We are not sure where this saying originated, but its implication is particularly salient in 2024. Market concentration (% weight of top 10 stocks in the S&P 500® Index) is at all-time highs, and correlations of stocks to the broader market (the degree to which returns of individual stocks reflect the index return) have fallen to all-time lows. The S&P 500® Index, which has become increasingly concentrated among a few mega-cap stocks, no longer represents the diverse opportunity set that exists within the US equity market.

We are ultimately stock pickers, but when we look at the valuation gap that exists between value and growth stocks, these relative spreads have reextended to highly attractive levels. Compared to P/Es of 22.4X and 30.5X (FY1 earnings) for the S&P 500® and Russell 1000® Growth Indices, the Russell 1000® Value Index sells for just 16.3X. Not since the dot-com bubble have these valuations spreads been this attractive. Our portfolio is even cheaper at 15.7X. Most importantly, we do not believe we are having to sacrifice quality in the current environment to find attractive values. Consistent with our approach of seeking to create a portfolio that is better, safer and cheaper than our benchmark, our portfolio has a greater median ROE (15.8% versus 11.2%) and median higher fixed charge coverage (7.9X versus 4.5X) than the Russell 1000® Value Index. While we can't predict the next recession, the outcomes of upcoming elections or the direction of the market, we feel good about the characteristics of the portfolio we have built.

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

For more information: Visit www.artisanpartners.com | Call 800.344.1770

Carefully consider the Fund's investment objective, risks and charges and expenses. This and other important information is contained in the Fund's prospectus and summary prospectus, which can be obtained by calling 800.344.1770. Read carefully before investing.

Current and future portfolio holdings are subject to risk. The value of portfolio securities selected by the investment team may rise or fall in response to company, market, economic, political, regulatory or other news, at times greater than the market or benchmark index. A portfolio's environmental, social and governance ("ESG") considerations may limit the investment opportunities available and, as a result, the portfolio may forgo certain investment opportunities and underperform portfolios that do not consider ESG factors. 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 and less developed markets, including frontier 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.

Russell 1000® Value Index measures the performance of US large-cap companies with lower 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. 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.

This summary represents the views of the portfolio managers as of 30 Jun 2024. Those views may change, and the Fund disclaims any obligation to advise investors of such changes. For the purpose of determining the Fund's holdings, securities of the same issuer are aggregated to determine the weight in the Fund. The holdings mentioned above comprised the following percentages of the Fund's total net assets as of 30 Jun 2024: Airbus SE 2.2%, Koninklijke Philips NV 2.0%, Meta Platforms Inc 3.9%, Alphabet Inc 4.1%, Baxter International Inc 1.8%, Diageo PLC Inc 2.9%, Texas Instruments Inc 2.6%, PayPal Holdings Inc 2.1%. Securities named in the Commentary, but not listed here are not held in the Fund as of the date of this report. Portfolio holdings are subject to change without notice and are not intended as recommendations of individual securities. All information in this report, unless otherwise indicated, includes all classes of shares (except performance and expense ratio information) and is as of the date shown in the upper right hand corner. This material does not constitute investment advice.

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Free Cash Flow is a measure of financial performance calculated as operating cash flow minus capital expenditures. **Return on Equity (ROE)** is a profitability ratio that measures the amount of net income returned as a percentage of shareholders' equity. **Price-to-Earnings (P/E) Ratio** measures how expensive a stock is. Earnings figures used for FY1 and FY2 are estimates for the current and next unreported fiscal years. **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. **Fixed Charge Coverage Ratio** indicates a firm's ability to satisfy fixed financing expenses, such as interest and leases.

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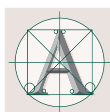
A R T I S A N  P A R T N E R S