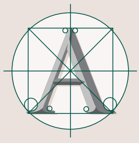


Artisan Value Income Fund

QUARTERLY Commentary

Investor Class: APFWX | Advisor Class: APDWX | Institutional Class: APHWX

As of 31 December 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.

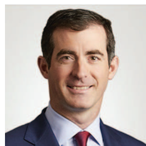
Attractive Business Economics

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 31 December 2024	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception
Investor Class: APFWX	**-3.90**	**9.68**	**9.68**	—	—	—	**3.76**
Advisor Class: APDWX	**-3.87**	**9.76**	**9.76**	—	—	—	**3.86**
Institutional Class: APHWX	**-3.86**	**9.81**	**9.81**	—	—	—	**3.89**
S&P 500® Index	2.41	25.02	25.02	—	—	—	12.74
Dow Jones US Select Dividend Index	-1.85	16.62	16.62	—	—	—	6.57

Source: Artisan Partners/S&P/S&P DJI. Returns for periods less than one year are not annualized. Class inception: Investor (28 February 2022); Advisor (28 February 2022); Institutional (28 February 2022).

Expense Ratios (% Gross/Net)	APFWX	APDWX	APHWX
Annual Report 30 Sep 2024[1,2]	8.59/1.20	4.18/1.10	2.21/1.05
Prospectus 30 Sep 2023[1,2]	9.08/1.21	4.36/1.11	2.43/1.06

[1]Net expenses reflect a contractual expense limitation agreement in effect through 31 Jan 2026. [2]See prospectus for further details.

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

US stocks rallied sharply following the US election, reaching all-time highs before pulling back in December. Positive sentiment was driven by optimism around a pro-business Trump 2.0 administration and ongoing rate cuts by the Federal Reserve. After the Fed kicked off its easing cycle in September with a 50bp cut, it followed that with two additional 25bp cuts in November and December.

While lower interest rates are a boon to stocks, the bond market reacted unfavorably to easing amid high government debt and deficits and the uncertainty of a new administration that has ambitious policy proposals around tax, trade and immigration. From mid-September to year-end, the yield on the 10-Year US Treasury bond rose roughly 100bps to over 4.5% and has continued rising in the new year. Higher long-term interest rates present a risk to equities. A higher cost of capital increases refinancing risk, particularly for leveraged businesses and those with weaker cash generation. A higher cost of capital also hurts stock prices by increasing the discount rates used to value future cash flows.

Q4 saw multiple reversals in equity market performance patterns by size, style and sector. In Q3, small- and mid-cap stocks beat large caps, value beat growth, and dividend stocks surged. In contrast, in Q4, large-cap growth stocks led, and dividend payers lagged, with the Dow Jones US Select Dividend Index returning -1.85%. In the S&P 500® Index, returns were led by the consumer discretionary, communication services and financials sectors. Materials, health care and real estate stocks were weakest.

Performance Discussion

Our portfolio finished down in Q4 amid the broader weakness among dividend stocks and the bond market tumult. In Q4, our Bond Proxy holdings were a meaningful drag on performance as our real estate holdings suffered from higher bond yields. Our biggest individual detractors were Polaris, Heineken and Baxter International. All three stocks are categorized as Core Value holdings.

Polaris designs, engineers and manufactures powersports vehicles, operating in three segments: off-road, on-road and marine. This company missed earnings expectations and lowered fiscal year 2024 guidance due to continued weak demand for recreational vehicles. Additionally, with dealer inventories still too high, Polaris has had to pursue greater promotional activity through rebates as well as provide cheaper floorplan financing and advertising assistance to dealers—all of which are pressuring margins. Retail weakness is partly a hangover from robust sales during the pandemic that pulled forward demand. Additionally, as inflation has constrained consumer budgets, consumers are deferring big-ticket discretionary purchases and avoiding high financing costs at today's interest rates. We admit that the challenging sales environment may continue, but with the stock drifting back toward its lowest prices since the pandemic selloff of 2020 and selling cheaply at 11X our estimate of normalized earnings, we added to our position in Q4. The company is well run historically, and current management has demonstrated operating discipline by divesting bad businesses acquired under old management, focusing on the company's roots in powersports and continuing its history of returning capital to shareholders via dividends and buybacks. Returns over a business cycle are strong, with returns on tangible capital most years in the mid-to-high teens. Though cash generation has fallen—as expected in a tough retail backdrop—Polaris remains well financed.

Heineken's volumes have remained soft amid challenging macro trends globally. Volume trends can ebb and flow, but on the whole, the alcoholic beverage category has a highly stable demand profile. Rather than sacrifice margins, Heineken has remained focused on maintaining its premium positioning—leveraging its strong brand portfolio and exposure to the premium beer segment—to pass through cost inflation. 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. Expectations for this stable and higher quality business appear relatively low—the stock sells for less than 12X FY1 earnings compared to an average of 16X over the past 5 years.

Baxter provides essential products in renal care, medication delivery, advanced surgery, clinical nutrition, pharma and acute therapies. Baxter's latest quarterly earnings were in line with expectations, but investors were likely looking for better growth in the core business (excluding the kidney care business, which is being sold to Carlyle Group). Additionally, there was a disruption at a manufacturing facility in western North Carolina due to hurricane Helene; however, its impact will likely be limited to the company's fourth quarter. Given the company's growth challenges over the past few years, which were due in part to post-COVID-related supply chain issues and higher raw material costs, patience among investors seems to be lacking. Baxter is nearing the end of a multiyear restructuring effort as it has sought to transform itself by selling several non-core operations to raise cash and simplify the business longer term as it focuses on profitable growth. In 2023, Baxter sold its BioPharma Solutions business at a significant premium, and in 2024, it reached a deal to sell its kidney business. 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 and for less than 10X our estimate of normalized earnings. Fundamentally, the growth slowdown looks temporary to us. Importantly, all the company's earnings are turned into free cash flow because it's not a very capital-intensive business. The company can use that free cash flow to pay down debt or return capital to shareholders via share repurchases and dividends.

Our Dividend Growth stocks were a bright spot in Q4, driven by our investment in Visa, an electronic payments network operator. Visa is a prime example of a dividend growth stock as the company has consistently raised its dividend each year since its 2008 IPO. Visa is

accepted at over 80 million merchant locations in 200 countries, interacts with 15,000 financial institutions and processed 233 billion transactions with $13 trillion of payments and cash volume in fiscal year 2024. Visa is a very high-quality business that benefits from substantial barriers to entry, network effects and several structural growth drivers, including consumer spending growth, the shift from cash to card, increasing e-commerce penetration, market share growth and global expansion. We believe Visa has a long runway for revenue growth as cash and checks continue to lose share.

Other top contributors were financial services companies Morgan Stanley and Goldman Sachs. Morgan Stanley is experiencing broad-based growth across its business lines, with its markets, investment banking, wealth management and investment management businesses each contributing to better-than-expected operating results. Management noted that its investment banking pipelines look healthy and believes a multiyear capital markets recovery has begun. Under former CEO James Gorman, who led the company for over a decade before handing the reins to his successor at the end of 2023, Morgan Stanley was transformed from being heavily reliant on investment banking into a less volatile, more balanced financial company. Besides being well managed, the company's balance sheet is in good shape, and we believe the stock remains attractively valued, selling for ~15X next year's earnings.

At Goldman Sachs, investment banking revenues have rebounded, driven in part by debt refinancing activity as interest rate spreads have tightened and continued normalization in M&A advisory activity from depressed levels. The asset management and wealth management businesses have also been steady performers. In November, the stock bounced higher on the presidential election results as the new administration's deregulatory stance is seen as a catalyst for increased M&A activity. We view Goldman as a best-in-class franchise with a self-perpetuating model in which its premier brand and higher compensation attract top talent and beget more success. Additionally, the balance sheet is well capitalized, and we believe the stock sells at a reasonable valuation.

Portfolio Activity

We initiated new positions in Wells Fargo and Boeing—two companies suffering from recent histories of deep cultural problems requiring new managements to come in and lead fundamental changes. Wells Fargo is the fourth-largest US bank by assets. The unprecedented $1.95 trillion asset cap that was imposed on Wells Fargo by the Federal Reserve in 2018 following its fake accounts scandal may be lifted in 2025 if the bank meets the remainder of its regulatory requirements. CEO and Chairman Charlie Scharf, who joined Wells in 2019 after prior stints as CEO of Visa and Bank of New York Mellon, has overseen a culture change focused on accountability and the buildout of a new risk and control infrastructure. Changing the culture takes time, but we believe the benefit of "fixing" the company will be felt over the long run in the form of lower expenses due to better technology and operations, more operating leverage, lower "one time" operating loss expenses due to credit or regulatory mistakes and eventually higher revenue due to returning to "offense" with clients, particularly once the asset cap is removed. Even if the asset cap is not lifted in the near term, we believe Wells' return of capital (share buybacks and dividends), clean credit profile and valuation provide downside protection and a reasonable amount of upside participation.

Global aerospace company Boeing has been mired in a crisis due to quality control issues with its 737 Max aircraft that has hampered production to the lowest levels since the pandemic. Mr. Kelly Ortberg, who took over as CEO in August 2024, has a lot of work to do to fix the company's culture. Kelly is respected in the industry, having been CEO of Rockwell Collins before it was sold to UTX. Shortly after he joined the company, the machinist union went on strike, adding to the company's production challenges. Due to the serious safety issues with the 737 Max, the Federal Aviation Administration placed production limits on how many aircraft Boeing can build, and Boeing had to raise $21 billion to fix its balance sheet from the resulting cash burn. Included in that $21 billion capital raise was the issuance of a mandatory convertible preferred security, which we purchased. The mandatory convertible trades like Boeing's common stock but yields 6%, offering steady income and slightly less volatility than the common stock due to the regular coupon payment. The company's financial position is weaker than our typical investment, but we believe Boeing is a unique case given its industry position in a global duopoly and importance to US national defense. As well, shares are inexpensive based on our normalized estimates of earnings, which factor in a multiyear turnaround.

Quarterly sales included Safran, an aerospace company, Samsung Electronics, a diversified technology company, and WAFD, a regional bank operating primarily in the Western US. We sold Safran on success as shares reached our target selling range. We exited Samsung Electronics due to our increasing concern about its ability to maintain its technology edge in memory chips. We sold our common equity stake in WAFD on strength to help fund our purchase of Wells Fargo, but we continue to hold WAFD preferreds paying a 4.875% coupon. In addition, we trimmed several winners, including M&T Bank, Fifth Third Bancorp, US Bancorp, CME Group, Goldman Sachs, Morgan Stanley, PNC Financial Services and Moelis & Co.

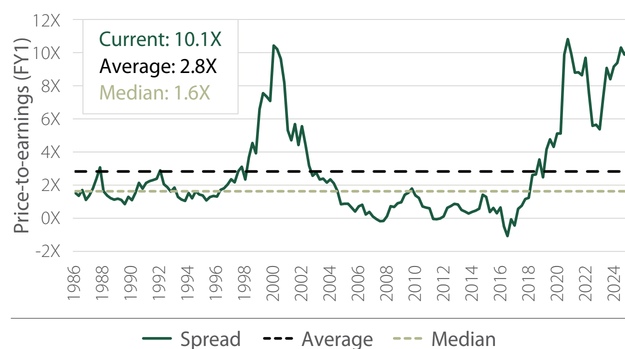
Perspective

The S&P 500® Index has been on a tear since bottoming in October 2022, notching its second consecutive calendar year with a 20%+ total return in 2024. The last time the S&P 500® Index achieved this feat was 1999, during the heady days of the tech bubble. Every era has its unique circumstances, but like then, the current US equity market entails a combination of rich valuations, high market concentration, strong price momentum and ebullient market sentiment. The S&P 500® Index trades for about 24X forward earnings compared to an average of just under 17X and a median of 16X since 1986. A host of other valuation measures are similarly elevated. For instance, the

Shiller CAPE (cyclically adjusted P/E) ratio is 38X, which is higher than all other time periods going back to 1881 aside from a brief few months in 2021 and in the years leading up to the 2000 market peak. Market concentration and momentum have gone hand in hand. In 2024, the Magnificent Seven stocks, the seven largest companies in the S&P 500® Index by market capitalization, which represented 33% of the index weighting at year-end, had an average return of 60% and contributed 53% of the index's return. According to an analysis by Empirical Research Partners of the S&P 500® Index, stocks in the highest quintile of price momentum outperformed the market by more than 20 percentage points over the prior year—a reading that ranked in the top 3% of years going back seven decades. With regard to sentiment, according to a survey by the Conference Board beginning in 1987, US households have never been as optimistic about the 12-month outlook for stocks as they are today.

When investing, starting points matter. High market valuations have historically portended subpar returns over the following decade. Further, high market concentration creates additional risk. Fortunately for investors, the US equity market is not a single index. There are many good businesses under the surface trading for reasonable valuations. Value stocks and dividend payers are highly cheap on a relative basis. The Dow Jones US Select Dividend Index sells for just under 14X, which is in line with its long-run average and 10 multiple points cheaper than the S&P 500® Index (Exhibit 1).

Exhibit 1: Dividend Stocks Remain Historically Cheap
S&P 500® Index – Dow Jones US Select Dividend Index



Source: Artisan Partners/FactSet/S&P/Dow Jones. As of 31 Dec 2024. **Past performance does not guarantee future results.**

In addition to a favorable relative risk/reward due to their current valuations, dividend stocks have historically provided attractive risk-adjusted returns, being less volatile and imperfectly correlated to the broader US equity market. So, we feel good about our opportunity set today and the long-term forward return potential that exists within our corner of the equity market.

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. There is no guarantee that the companies in which the portfolio invests will declare dividends in the future or that dividends, if declared, will remain at current levels or increase over time. The equity, fixed income and derivative security types referenced each contain inherent risks, including the risk of loss like all investments, and capital appreciation and income is not guaranteed. 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. Value securities may underperform other asset types during a given period. 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.

S&P 500® Index measures the performance of 500 US companies focused on the large-cap sector of the market. The Dow Jones US Select Dividend Index measures the performance of the US's leading stocks by dividend yield. 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 31 Dec 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 comprise the following percentages of the Fund's total net assets as of 31 Dec 2024: Polaris Inc 1.9%, Heineken Holding NV 2.3%, Baxter International Inc 1.5%, Visa Inc 1.5%, Morgan Stanley 1.6%, The Goldman Sachs Group Inc 1.2%, The Boeing Co 1.0%, Wells Fargo & Co 2.1%, M&T Bank Corp 0.9%, Fifth Third Bancorp 0.8%, US Bancorp 1.1%, CME Group Inc 1.5%, The PNC Financial Services Group Inc 1.4%, Moelis & Co 0.9%, WaFd Inc 1.8%. 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. Portfolio security yields are subject to market conditions and are not guaranteed.

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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.

Portfolio holdings are classified into five income categories: Core Value, Dividend Recovery, Dividend Growth, Bond Proxy and Capital Structure. Core Value holdings are investments consistent with the team's value investing approach that also have an income component. Dividend Recovery holdings are investments where the current yield does not reflect the future payout. Dividend Growth holdings are investments where the dividend payout is expected to grow over a multiyear period. Bond Proxy holdings are investments in businesses which are less economically sensitive and have steady dividend polices. Capital Structure holdings are instruments that comprise non-equity parts of the capital structure (e.g., preferred securities, convertibles and bonds).

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.

Free Cash Flow is a measure of financial performance calculated as operating cash flow minus capital expenditures. **Dividend Yield** is a financial ratio that shows how much a company pays out in dividends each year relative to its share price. **Price-to-Earnings (P/E)** is a valuation ratio of a company's current share price compared to its per-share earnings. **Spread** is the difference in yield between two bonds of similar maturity but different credit quality. **Coupon** is the annual interest rate paid by a fixed income security, expressed as a percentage of the face value. **Return on tangible capital** measures the rate of return on tangible common equity or shareholders' equity less preferred stock, goodwill and other intangible assets. **Normalized Earnings** are earnings that are adjusted for the cyclical ups and downs over a business cycle. **Discount Rate** is the rate used to determine the present value of future cash flows. **Forward Earnings** are an estimate of the next period's earnings of a company, usually till the completion of the current fiscal year and sometimes to the following fiscal year. **The Shiller cyclically adjusted price-to-earnings ratio (CAPE)** is a stock valuation measure usually applied to the S&P 500® Index. It is defined as price divided by the average of ten years of earnings adjusted for inflation. Using average earnings over the prior 10 years helps to smooth out the impact of business cycles. **Price Momentum** is the tendency of stock price movement to continue past performance.

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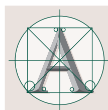
A R T I S A N  P A R T N E R S