



Investment Process

We seek to invest in high-quality, undervalued companies with strong balance sheets and shareholder-oriented management teams.

Undervaluation

Determining the intrinsic value of a business is the heart of our research process. Intrinsic value represents the amount that a buyer would pay to own a company's future cash flows. We seek to invest at a significant discount to our estimate of the intrinsic value of a business.

Business Quality

We seek to invest in companies with histories of generating strong free cash flow, improving returns on capital and strong competitive positions in their industries.

Financial Strength

We believe that investing in companies with strong balance sheets helps to reduce the potential for capital risk and provides company management the ability to build value when attractive opportunities are available.

Shareholder-Oriented Management

Our research process attempts to identify management teams with a history of building value for shareholders.

Team Overview

Our team has worked together for many years and has implemented a consistent and disciplined investment process. Our team is organized by geographic regions, but within those regions we are generalists who look across all industries. We believe this model enables our analysts to become broad thinkers and gain critical insight across all economic sectors.

Portfolio Management



Daniel J. O'Keefe
Portfolio Manager (Lead)
Managing Director



Michael J. McKinnon, CFA
Portfolio Manager
Managing Director

Investment Results (% USD)

As of 30 June 2024	Average Annual Total Returns						
	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception ¹
Composite — Gross	-0.20	11.08	20.21	6.33	—	—	13.17
Composite — Net	-0.39	10.67	19.33	5.53	—	—	12.34
S&P 500® Index	4.28	15.29	24.56	10.00	—	—	17.07

Annual Returns (% USD) Trailing 12 months ended 30 June

	2020	2021	2022	2023	2024
Composite — Net	—	49.45	-17.56	19.50	19.33

Source: Artisan Partners/S&P. Returns for periods less than one year are not annualized. ¹Composite inception: 1 March 2020.

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.



Market Overview

"Prudence is the knowledge of things to be sought, and those to be shunned."—Cicero

During Q2 2024, our portfolio returned -0.4% (net) (all returns in USD unless stated otherwise). In comparison, the S&P 500® Index increased by 4.3%, while the Russell 1000® Value Index decreased by 2.2%. Year-to-date, our portfolio has risen by 10.7% (net), whereas the S&P 500® Index is up 15.3% and the Russell 1000® Value Index has grown by 6.6%.

These are great returns for a six-month period by any measure. But the delta between our return and that of the S&P 500® Index compels us to retread what has become familiar ground for us and our readers: IT sector concentration.

This is not a new phenomenon. Over the past 20 years, the IT sector represented 25% of the S&P 500® Index return. While much of this is justified by the industry's earnings growth, the concentration has recently reached unprecedented levels, particularly in the US. In the four years since the onset of the pandemic, the IT sector represented 34% of the MSCI ACWI Index return and nearly 40% of the S&P 500® Index return.

What's more, returns are increasingly concentrated in just a few names. Four companies—NVIDIA, Apple, Alphabet and Microsoft—generated essentially all of the MSCI ACWI Index's and S&P 500® Index's Q2 return. NVIDIA represented nearly 40% of the total return for the MSCI ACWI Index and 44% of the total return for the S&P 500® Index. Said another way, excluding NVIDIA from these indices would have reduced the benchmark's return by nearly half.

Lest this increase in NVIDIA appear too abstract, consider this. NVIDIA's year-to-date dollar value increase is \$1.8 trillion. That's equivalent to the 2023 increase in US GDP, which is, of course, representative of the collective economic efforts of about 330 million people. NVIDIA's market cap is now \$3 trillion. So is the GDP of France.

Does this make any sense? We wish that we could definitively say that it doesn't, given that we don't own NVIDIA. But the answer is more complicated. The growth in revenue and profits at NVIDIA has been stunning. In the calendar year 2020, its revenue was about \$17 billion. Estimates for 2024 are around \$120 billion. Operating profit is projected to reach about \$80 billion in 2024 versus \$4.5 billion in 2020. NVIDIA's revenue essentially represents the capital spending of a small number of very profitable, very cash-rich technology companies buying up the processors necessary to power artificial intelligence (AI) software programs. It's an AI landgrab. In order for NVIDIA to sustain these levels of revenue or grow them from here, these AI investments must start to generate an ROI for those splashing out \$120 billion a year. And if not generating an ROI in the near term, those companies must at least see the prospect of an ROI, a clear sustainable competitive advantage or a moat of some kind.

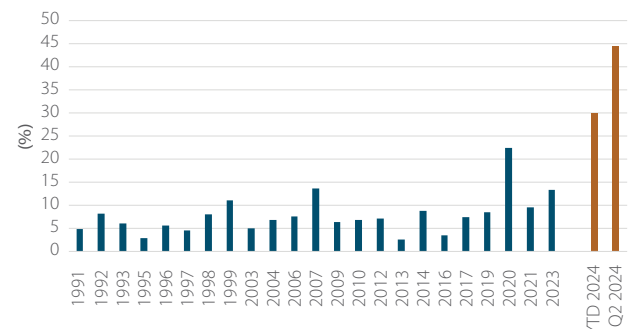
We are watching this unfold in real time through our holdings in Alphabet and Meta. Both are spending very heavily on NVIDIA processors. The returns from these investments are an abstraction at this point. Said another way, we don't see and are unable to calculate a near-term return from these investments. But we do believe that AI

will increase the engagement levels for both consumers of their respective platforms and advertisers on the platforms. And given that enormous levels of capital spending are required for these investments, we also believe that the barriers to entry will be further raised for both Alphabet and Meta. A couple of Stanford MBAs in their garage trying to create the next search engine or social media platform are engaged in a hopeless task, given the dollars required.

That being said, meaningful dollar returns for buyers of NVIDIA chips must start to materialize in order to justify the company's market value. At this point, it appears to us to be mostly on the come.

But let us zoom back out to the market at a higher level. Instances of a NVIDIA concentration effect such as we have just seen are extremely rare. For instance, over the past 33 years, in periods where the market was up more than 5%, no single company represented more than 10% of the S&P 500® Index's total return until the late 1990s. Prior to the pandemic in 2020, this threshold was breached only twice—once during the dotcom bubble in 1999 when Microsoft accounted for 11% of the index's total return and again in 2007 by Exxon. Since 2020, overall market returns have become more concentrated, with a single company comprising over 10% of the market return in three of the past four years. The situation has become even more extreme this year, with NVIDIA alone contributing ~45% of the market return in Q2 and ~30% of the market return in the first six months.

Exhibit 1: Largest Single Stock Contribution to S&P 500® Index Total Return (in up markets >5%)



Source: FactSet/Bloomberg. As of 30 Jun 2024. This chart represents the proportion of the S&P 500® Index return made by the largest single contributor in any year the index returned >5% since 1990.

Has this material crowding effect changed the nature of passive investing? As with the NVIDIA issue, the answer is complicated. The attraction of index investing has always been twofold: low cost and broad diversification. The low-cost component remains unchanged, and it is meaningful. The diversification issue is where it gets messy. Broad indices now represent a level of concentration, at least in terms of sector- and stock-specific exposure, comparable to or even exceeding what we might typically find in active portfolios. The top five positions in the S&P 500® Index now represent 27% of the index—arguably all in a single industry. If you buy an index fund, chances are you are buying a lot of NVIDIA and a lot of tech. Of course, this means index returns are now far more idiosyncratic than perhaps many investors understand. So far, it has been an excellent experience, but investing should be a forward-looking exercise.

To put an even finer point on it, the index (either the S&P 500® Index or the MSCI ACWI Index) arguably no longer provides broad exposure to the economy or the broader market. It's a lot of tech. A lot of quite expensive tech. Is this the bogey that the industry should be aspiring to match every quarter and every year? What is the greater risk—underperforming a benchmark or taking excess risk to keep up with a benchmark concentrated in a group of investments that you don't necessarily find attractive?

We will leave others to provide the answers. Our investment approach is (and has always been) benchmark agnostic. We have never paid any attention to the index, and clients shouldn't expect our portfolio to look anything like it. We do not seek to participate in every exciting investment theme but rather emphasize building a portfolio of sensible investments and avoiding losses. This involves investing in a diversified group of companies that grow their business value per share over time, have quality characteristics that allow them to perform in a variety of economic environments, have reasonable leverage and are available for purchase at reasonable prices.

This is easy to write and hard to implement. Investing is often about controlling your emotions and making sensible decisions. There is a clear distinction between prudent investing and the fear of missing out (FOMO). There are many agency risks and other biases that cause people to make suboptimal decisions. But while the current market concentration presents some unique challenges, we would argue that maintaining prudent investing principles and focusing on reasonable diversification, business quality, financial strength and valuation remain the best strategies for building resilient portfolios. As Cicero said, prudence is knowing what to seek and knowing what to shun. In our view, at some point holding an overly concentrated index where gains are driven by a few dominant stocks might become—dare we say—imprudent.

In our view, our portfolio is more attractive on all these metrics than what is currently represented by the benchmark, and we are very content with our large personal investments in the strategy that sit alongside our clients. But we encourage clients to scrutinize our top holdings and compare them to any of the broader indices and come to their own conclusions.

Portfolio Discussion

The top contributors to performance for the quarter were Alphabet, Lam Research and Elevance.

Alphabet shares rose by 21% during the quarter, making it the largest contributor to our performance. The company reported excellent Q1 earnings, highlighting accelerating revenue growth, strong profitability and effective capital allocation. Alphabet's core search business is growing at a mid-teens rate—the fastest growth rate in nearly two years. Importantly, its non-search businesses have reached

significant scale, with its cloud and YouTube businesses expected to reach a combined run-rate of \$100 billion by the end of 2024.

During the quarter, Alphabet also displayed meaningful progress in its AI initiatives, and we believe it is well positioned to be a leader in this field. The capital allocation is solid. It is returning all the free cash flow to shareholders and announced that it will start paying a dividend. Alphabet's shares are trading at just over 20X next year's earnings, which is a very reasonable valuation for a business with such high-quality characteristics and growth potential.

Lam Research shares rose 10% during the quarter and are up 67% over the past year, primarily due to optimism around the pending investment cycle in semiconductor capital expenditures. Lam is one of the largest equipment manufacturers used to make semiconductor chips. This equipment, commonly referred to as WFE (wafer fabrication equipment), is expected to experience significant growth due to a combination of a cyclical rebound in memory chips and growing demand for new AI-related chips. Lam's product portfolio is particularly well positioned to benefit from both trends and should grow even faster than the overall market. Its shares now trade at ~30X prior peak earnings, which suggests this dynamic is well understood by the market and is mostly priced in.

Elevance shares rose 5% during the quarter. The business has been performing well and has delivered good profit growth this year, despite a flat top line. It has largely navigated the challenges related to Medicaid redeterminations, which have caused temporary volatility in membership and health care utilization levels. Its vertical integration strategy is gaining traction, with strong revenue and profit growth at its Carelon Services business. Elevance's shares are trading at 13X earnings, which is a very attractive investment proposition for a durable business that expects long-term earnings growth of over 12%.

The biggest detractors from performance during the quarter were Harley-Davidson, Henry Schein and Expedia.

Harley's share price declined 23% during the quarter after a strong run in Q1. We had significantly reduced our position at higher share prices over the past 12–18 months. The shares have been weak over concerns that higher interest rates are impacting affordability and retail sales. We share these concerns. Harley is likely to reduce its forecasts for the year when it reports, though this now appears to be discounted in the valuation. Famous last words. The shares now trade at a single-digit multiple of earnings. We believe the brand is strong, and management is able to adjust production and costs to meet various demand environments. If interest rates begin to decline as anticipated, demand should improve.

Henry Schein declined 15% during the quarter due primarily to weak traffic trends in the overall dental market. In our view, the concerns around near-term traffic trends are misplaced. The long-term trends in

the dental industry are favorable. Around 90% of US dentists are currently operating at full capacity, and 50% of the US population still isn't regularly seeing a dentist. We see penetration opportunities and demographic tailwinds in the US and internationally. And while there will be puts and takes, the dental market should grow nicely over time.

Schein's business is performing well. It seems to have recovered from the cyberattack in late 2023. Most importantly, it is making good progress on its strategy to shift its business mix toward its own branded products, which have higher growth and margins. This shift benefits Schein by improving its margins, increasing its value to customers and giving it more leverage with suppliers. This year it expects to grow earnings 10%–15%. As it transforms from a pure distributor of third-party products into a hybrid distributor/manufacturer, we believe it will have more control over its financial model and ability to drive attractive profit growth in a variety of market environments. We find this combination very attractive for a company trading at 11X–12X earnings.

Expedia shares declined 18% during the quarter after reducing its full-year outlook. It lowered its revenue growth forecast to mid- to high-single digits for 2024 and said margins will stay flat. On the surface, a business growing in the high-single digits while maintaining profitability isn't bad. The issue is the company just completed a major restructuring that was supposed to result in accelerated revenue growth and significant margin expansion. Neither is happening. The company continues to underperform the industry and its peers. Importantly, management will not share with us the important metrics and disclosures that might give us the ability to understand why. It continues to just tell us that improvement is coming. That is not enough for us, and we have lost confidence that the changes will have the intended impact on the company's financial performance. As a result, we decided to exit the investment at a modest profit.

During the quarter, we added a small investment in Aon PLC to the portfolio.

Aon is a global leader in the insurance broking and consulting industry. It's the world's second-largest insurance brokerage, which is an attractive industry that we know well. The industry is relatively consolidated and characterized by recurring revenue streams and steady growth. Over the years, we have owned all three of the major companies in this industry—Marsh & McLennan, Aon and Willis Towers Watson.

In the course of our careers, we have developed a deep appreciation for the insurance broking business. These businesses have a resilient business model with many underlying growth drivers. Commercial clients face many risks that they would prefer to mitigate with insurance and risk management strategies. Property and casualty risks, the cost of reinsurance, director and officer risks, and workers' compensation are likely to keep growing as asset values and social

inflation (i.e., litigation and lawsuit costs) are likely to keep rising. Climate and cyber risks must also be managed. Insurance brokers benefit from these trends as they are paid fees and commissions to help clients craft the appropriate blend of insurance coverage. The beauty of this business is that insurance carriers bear the risk of loss, not brokers like Aon.

Aon's stock has declined 13% over the past year for two related reasons. First, Aon's business has been growing more slowly than its primary competitor, Marsh & McLennan. Second, it announced a relatively large and expensive acquisition of middle market insurance broker NFP. Based on our analysis, we believe the recent growth slowdown is mostly due to a business mix that will likely normalize over time. Specifically, Aon has less exposure to the middle market (which has been growing faster) and more exposure to financial service lines (which have been weak due to the lack of capital markets activity). Aon's growth rate should normalize as IPO and M&A activity normalizes and as it integrates the acquisition of NFP to give it more exposure to the growing middle market. The price it paid for NFP was high, but we have reason to believe the synergies are understated, so the post-synergy valuation will look more reasonable.

Aon is trading at 17X forward earnings, which is a significant discount to peers and a reasonable price for a high-quality business in a fantastic industry that should deliver high-single-digit profit and free cash flow growth for a very long time.

During the quarter, we exited our investment in Expedia. Expedia is discussed in detail earlier in this section.

ARTISAN CANVAS

Timely insights and updates from our investment teams and firm leadership

Visit www.artisancanvas.com

For more information: Visit www.artisanpartners.com

Investment Risks: Non-diversified portfolios may invest larger portions of assets in securities of a smaller number of issuers and performance of a single issuer may have a greater impact to the portfolio's returns. 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 or growth 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 Strategy Composite's total net assets as of 30 Jun 2024: Marsh & McLennan Cos Inc 3.4%, Alphabet Inc 5.9%, Elevance Health Inc 5.7%, Meta Platforms Inc 5.1%, Henry Schein Inc 4.5%, Lam Research Corp 3.5%, Harley-Davidson Inc 2.6%, Aon PLC 1.6%. 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.

S&P 500[®] Index measures the performance of 500 US companies focused on the large-cap sector of the market. MSCI All Country World Index measures the performance of developed and emerging markets. Russell 1000[®] Value Index measures the performance of US large-cap companies with lower 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.

The S&P 500[®] ("Index") is a product of S&P Dow Jones Indices LLC ("S&P DJI") and/or its affiliates and has been licensed for use. Copyright © 2024 S&P Dow Jones Indices LLC, a division of S&P Global, Inc. All rights reserved. Redistribution or reproduction in whole or in part is prohibited without written permission of S&P Dow Jones Indices LLC. S&P[®] is a registered trademark of S&P Global and Dow Jones[®] is a registered trademark of Dow Jones Trademark Holdings LLC ("Dow Jones"). None of S&P DJI, Dow Jones, their affiliates or third party licensors makes any representation or warranty, express or implied, as to the ability of any index to accurately represent the asset class or market sector that it purports to represent and none shall have any liability for any errors, omissions, or interruptions of any index or the data included therein.

MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used to create indices or financial products. This report is not approved or produced by MSCI.

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

This summary represents the views of the portfolio manager as of 30 Jun 2024. 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.

Delta is a synonym for change in a statistic. **Return on Investment (ROI)** measures the amount of return on an investment relative to the investment's cost. **Normalized Earnings** are earnings that are adjusted for the cyclical ups and downs over a business cycle. **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. **Free Cash Flow** is a measure of financial performance calculated as operating cash flow minus capital expenditures.

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.

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

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

In the United Kingdom, issued by Artisan Partners UK LLP, 25 St. James's St., Floor 10, London SW1A 1HA, registered in England and Wales (LLP No. OC351201). Registered office: Phoenix House, Floor 4, Station Hill, Reading Berkshire RG1 1NB. In Ireland, issued by Artisan Partners Europe, Fitzwilliam Hall, Fitzwilliam Pl, Ste. 202, Dublin 2, D02 T292. Registered office: 70 Sir John Rogerson's Quay, Dublin 2, D02 R296 (Company No. 637966).

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

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

© 2024 Artisan Partners. All rights reserved.

For Institutional Investors – Not for Onward Distribution

