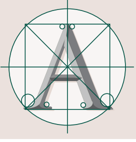


Artisan Value Income Strategy

QUARTERLY Commentary

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 (% USD)

As of 30 June 2024	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception[1]
			Average Annual Total Returns				
Composite — Gross	**-1.49**	**3.59**	**11.08**	—	—	—	**3.03**
Composite — Net	**-1.67**	**3.23**	**10.31**	—	—	—	**2.32**
S&P 500® Index	4.28	15.29	24.56	—	—	—	11.74
Dow Jones US Select Dividend Index	-1.01	5.03	11.44	—	—	—	3.30

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

	2020	2021	2022	2023	2024
Composite — Net	—	—	—	**7.02**	**10.31**

Source: Artisan Partners/S&P/S&P DJI. Returns for periods less than one year are not annualized. [1]Composite inception: 1 March 2022.

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.

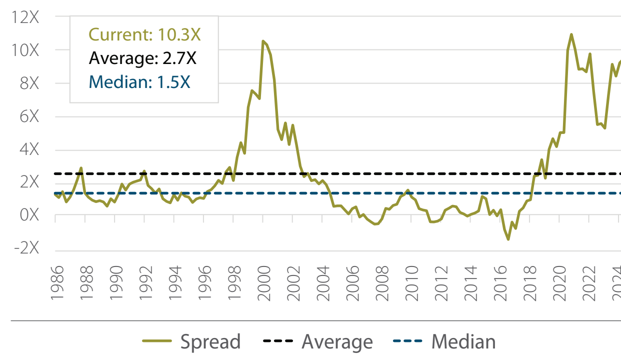
Investment Risks: Investments will rise and fall with market fluctuations and investor capital is at risk. Investors investing in strategies denominated in non-local currency should be aware of the risk of currency exchange fluctuations that may cause a loss of principal. These risks, among others, are further described near the back of this document, which should be read in conjunction with this material.

Investing Environment

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® Index's 4.28% Q2 return. Given 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%. Dividend-paying stocks, like most size and style segments, were also lower in Q2, with the dividend stock focused Dow Jones US Select Dividend Index returning -1.01%.

Dividend stocks have significantly trailed the broader US equity market over the past 18 months, with the S&P 500® Index outperforming the dividend index by over 2,300bps. As market leadership has continued to narrow and concentration has increased, the S&P 500® has begun to resemble more of a growth index rather than a core index, and the S&P 500®'s valuation increasingly reflects this. Today's valuation spread between the S&P 500® and dividend stocks is near all-time highs—matched only by the dot-com bubble (1999–2000) and 2021's meme stock mania (Exhibit 1).

Exhibit 1: Dividend Stocks Are Historically Cheap
P/E (FY1): S&P 500® Index - Dow Jones US Select Dividend Index



Source: Artisan Partners/FactSet/S&P/Dow Jones. As of 30 Jun 2024. **Past performance does not guarantee future results.**

Performance Discussion

Our objective is to deliver an equity-like return over the long term while generating a portfolio current yield that is equal to or greater than 2X the average current yield for stocks in the S&P 500® Index. We define an equity-like return as high-single digits based on the long-run average return of US stocks over the past century. Aided by broad strength in the equity market, our portfolio achieved this type of outcome over the past one year, returning 10.31% (net) (all returns in USD unless stated otherwise).

In Q2, given the broader weakness among dividend-paying stocks, the portfolio suffered a -1.67% decline (net). Our dividend recovery holdings were the biggest source of weakness due in part to our investment in Airbus. 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.

Other key detractors were Baxter International and Vail Resorts. Baxter provides 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.

Vail Resorts is a premium skiing, lodging and resort company. Mother nature didn't cooperate this past winter as there was below-average snowfall early in the ski season and highly variable temperatures. That contributed to reduced visitation, which had second-order effects on retail, rental and lodging activity. On the positive side, growth in advanced pass sales drove low-single-digit growth in lift revenues, while labor costs were well controlled. Vail is one of a couple dominant players in an industry that benefits from high barriers to entry due to the fixed supply of suitable mountains. Of course, this is a highly seasonal business, dependent on appetite for ski vacations and the right weather conditions, but the company has made strides to improve the business model by increasing the percentage of its

business from the advance commitment pass product, which transforms the business from one of uncertainty and weather dependency to one of greater visibility and predictability. This provides stability and the ability to spend on capex during the offseason to improve the guest experience, as well as pursue additional footprint expansion.

Turning to the positive side of the ledger, our top returners were NetApp, Philips and Texas Instruments. NetApp is an enterprise data storage and solutions company with a specialization in all-flash (i.e., solid-state) storage. Sales of the company's higher margin flash products (+17% y/y) boosted margins and helped offset rising NAND component costs. Notably, the mix shift to flash is driving structurally higher gross margins. The boom in AI infrastructure investment, though still a small portion of its sales, increases the potential long-term growth opportunity for the company's storage solutions, and this element has likely contributed to the stock's strong gains.

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

In Q2, we purchased LKQ and Kerry Group. LKQ is the dominant player in salvage/aftermarket collision parts distribution in North America, with over 70% market share. Roughly 85%–90% of collision repairs are paid for by insurers, which value low-cost parts and quick repair turnarounds to minimize claims costs. LKQ's low prices, distribution scale and industry-leading parts availability make it an attractive supplier for DRP (direct repair program)-affiliated collision repair shops that represent an increasingly large portion of the industry. Over the last decade, LKQ has also become the largest mechanical parts distributor in Europe. As is the case in North America, independent European mechanics value LKQ's reliable distribution and competitive pricing. The European business has improved operationally over the last five years as LKQ has focused on the integration of its various acquisitions to drive margin and free cash flow improvements. LKQ operates in end markets with limited cyclicality as 90% of revenues are tied to non-discretionary spending and reliably has strong free cash flow generation. The company also meets our requirement for a sound financial condition as its debt load is manageable at 2X EBITDA due to its attractive free cash flow. At 12X P/E, shares trade at a distinct discount to their historical 10-year average of 14X and are also cheaper relative to LKQ's auto parts retailer peers, which arguably have similar long-term growth profiles.

Kerry is the largest food and beverage ingredients company globally. Kerry is primarily a B2B (business-to-business) company that helps consumer goods companies go from an idea to a product rapidly, with taste, nutrition and formulation assistance on-site or at Kerry's innovation centers. The COVID supply chain whipsaw and the post-COVID/Ukraine war inflationary environment have impacted margins. Profitability is also temporarily depressed due to a few recent M&A deals that were not immediately accretive. Finally, shares are caught up in the GLP-1 weight-loss drug stock market trade that hit many consumer staples stocks. The first set of factors is fair, but the perceived disruption by GLP-1 drugs seems overdone to us. Not only are we skeptical that Americans will make wholesale permanent changes to their diets, but Kerry's ingredient solutions lean toward increasing health profiles while retaining flavors. The stock sells for 13X our estimate of normalized earnings, which is the cheapest in more than a decade.

We didn't sell any holdings in Q2, but our position in Wells Fargo 5.9% perpetual preferred stock was redeemed by Wells Fargo as we

expected when we made our investment in 2023. When issued, the perpetual preferred security was supposed to reset in June 2024 to the London Interbank Offered Rate (LIBOR) +311bps. However, LIBOR no longer exists. But this security's language didn't allow it to switch to the Secured Overnight Financing Rate (SOFR). Instead, it was resetting off of the prior 5.9% coupon +311bps, for 9.01%. We purchased the security below $99. We expected that Wells Fargo would call it at par next year and our all-in return would be a high-single-digit return: the 5.9% coupon on a sub-99 purchase price, plus the pull to par. All in, we believed we were getting an equity-like return with much lower market beta.

Perspective

With risks building in the broad US equity indices and the recent struggles of dividend stocks, we believe it's useful to remind investors of the benefits associated with dividends. Dividend stocks have historically provided attractive risk-adjusted returns, being less volatile and imperfectly correlated to the broader US equity market. Dividend stocks can be less volatile for a few reasons. Companies that pay dividends tend to be established businesses with steady cash flows. Second, paying a dividend instills discipline. Company management is less likely to pursue M&A or growth initiatives that may or may not create value. Additionally, dividend stocks typically have a more loyal shareholder base as investors seeking equity income are less likely to sell. As value investors, we would also note that dividend stocks tend to be value stocks. A lower asking price should create a more favorable risk/reward. This final point deserves to be underscored in the current market environment. Dividend (and value) stocks have rarely been this cheap in relative terms compared to the broader US equity market. Subpar returns of dividend payers over the past 18 months have been chalked up to today's higher interest rate environment as dividends now have stronger competition from yields on fixed income and cash. However, historically, higher interest rates have not always been bad for dividend stocks. For instance, in 2022 when the Federal Reserve was hiking interest rates due to inflation pressures, the Dow Jones US Select Dividend Index gained 5% in price and returned 9% including dividends, whereas the S&P 500® Index delivered a -18% total return.

In absolute terms, we are pleased that the income strategy has delivered on its promise over the past year with total returns approaching double digits. Early July—post the end of Q2—also saw significant market reversals that led to stronger results for our strategy. We hope our next quarterly letter will discuss a continuation of this trend, though timing a true, durable reversable isn't in our job description. We want to deliver solid income and capital appreciation on an absolute basis.

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Investment Risks: 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. Securities of small- and medium-sized companies tend to have a shorter history of operations, be more volatile and less liquid and may have underperformed securities of large companies during some periods. Value securities may underperform other asset types during a given period. These risks, among others, are further described in Artisan Partners Form ADV, which is available upon request.

Unless otherwise indicated, the Artisan Strategy characteristics relate to that of an investment composite or a representative account managed within a composite. It is intended to provide a general illustration of the investment strategy and considerations used by Artisan Partners in managing that strategy. Individual accounts may differ, at times significantly, from the reference data shown due to varying account restrictions, fees and expenses, and since-inception time periods, among others. Where applicable, this information is supplemental to, and not to be construed with, a current or prospective client's investment account information. References to individual security performance relate to a representative account in the composite. Individual holding periods may differ.

For the purpose of determining the portfolio's holdings, securities of the same issuer are aggregated to determine the weight in the Strategy. The holdings mentioned above comprised the following percentages of a representative account within the Artisan Value Income Strategy Composite's total net assets as of 30 Jun 2024: Airbus SE 1.2%, Baxter International Inc 1.8%, Vail Resorts Inc 1.8%, NetApp Inc 2.3%, Koninklijke Philips NV 1.6%, Texas Instruments Inc 1.7%, LKQ Corp 1.5%, Kerry Group PLC 1.5%. 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. Portfolio security yields are subject to market conditions and are not guaranteed.

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).

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. 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.

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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.

Price-to-Earnings (P/E) is a valuation ratio of a company's current share price compared to its per-share earnings. **Free Cash Flow** is a measure of financial performance calculated as operating cash flow minus capital expenditures. **Current Yield** is the annual income (interest or dividends) divided by the current price of a security. **Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)** is an indicator of a company's financial performance which is calculated by looking at earnings before the deduction of interest expenses, taxes, depreciation and amortization. **Normalized Earnings** are earnings that are adjusted for the cyclical ups and downs over a business cycle. **Coupon** is the annual interest rate paid by a fixed income security, expressed as a percentage of the face value. **Beta** is a measure of the volatility of a security or a portfolio in comparison to the market as a whole. **Spread** is the difference in yield between two bonds of similar maturity but different credit quality.

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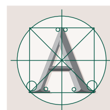
For Institutional Investors – Not for Onward Distribution

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