



Artisan Select Equity Fund

QUARTERLY
Commentary

Investor Class: ARTNX | Advisor Class: APDNX | Institutional Class: APHNX

As of 31 March 2024

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 (%)

As of 31 March 2024	Average Annual Total Returns						
	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception
Investor Class: ARTNX	10.86	10.86	25.62	6.96	—	—	12.41
Advisor Class: APDNX	10.85	10.85	25.69	7.06	—	—	12.50
Institutional Class: APHNX	10.91	10.91	25.83	7.10	—	—	12.57
S&P 500® Index	10.56	10.56	29.88	11.49	—	—	16.99

Source: Artisan Partners/S&P. Returns for periods less than one year are not annualized. Class inception: Investor (28 February 2020); Advisor (28 February 2020); Institutional (28 February 2020).

Expense Ratios (% Gross/Net)	ARTNX	APDNX	APHNX
Annual Report 30 Sep 2023 ^{1,2}	3.17/1.25	3.66/1.15	1.34/1.10
Prospectus 30 Sep 2023 ^{1,2}	3.18/1.26	3.67/1.16	1.35/1.11

¹Net expenses reflect a contractual expense limitation agreement in effect through 31 Jan 2025. ²See 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. Performance may reflect agreements to limit a Fund's expenses, which would reduce performance if not in effect.

**Market Overview**

The US market notched almost a full year of gains in a quarter. The S&P 500® Index's 10-year compound annual return is 13%; this quarter it gained almost 11%. Not bad considering last year's 26% gain.

Most markets around the world did well, with returns broadly distributed. Most international markets were strong in local currency terms but less so in US dollars as the greenback continued to gain due to strong relative economic performance (more on that later). The MSCI EAFE Index, for example, rose by 10% in local currency but "only" 6% in dollars. Japan was the best performing major market, both in local currency and in dollars. In yen, the Nikkei 225 Index rose 22%, but it gained 13% in dollars. The yen is at its lowest level versus the dollar since 1990. This is not surprising. Japan is an export-oriented economy, and the government prefers a cheap yen to maintain competitiveness. The entire developed world raised interest rates, but Japan continues the negative real rate experiment with only a modest increase to a barely positive nominal interest rate. And Japan's relatively terrible economic performance of the past three decades shows no sign of ending. None of this argues for a strong currency. That said, even after currency headwinds, the Japanese stock market did better than the S&P 500® Index's 11% gain. China continued to lag notably. The second-largest economy in the world is struggling with a real estate/debt crisis, a weak post-COVID recovery and geopolitical tensions that are meaningfully reducing foreign investment. The Chinese market declined 2% in the quarter.

Investors have had quite a run post-COVID. Since the lows of March 2020, the S&P 500® Index has returned 143%, the MSCI ACWI Index 115% and the MSCI EAFE Index 90%. Since the end of 2019 (the last full year prior to COVID-19), the S&P 500® Index total return is 74%, the MSCI ACWI Index 52% and the MSCI EAFE Index 31%. It must be noted that inflation has been a meaningful component of these returns. Markets are priced in nominal, not real, terms, and the significant levels of inflation we have seen post-COVID are reflected in share prices. Companies have absorbed tremendous levels of inflation and have passed it on successfully for the most part. We attempted a crude decomposition analysis of post-COVID S&P 500® Index returns, into inflation, GDP and other factors. We will stipulate that this is an overly simplistic analysis, but one that we also think is interesting.

Exhibit 1: Decomposition Analysis of the S&P 500® Index Returns Post-Pandemic

	2019	2020	2021	2022	2023	2019-2023 Change
S&P 500® Index Returns ^{1,2}	100.0	116.3	147.5	118.8	147.6	
% Change		16.3%	26.9%	-19.4%	24.2%	47.6%
S&P 500® Index Earnings	163.6	142.9	198.5	223.8	221.5	
% Change		-12.6%	38.9%	12.7%	-1.0%	35.4%
S&P 500® Index P/E	19.7	26.3	24.0	17.2	21.5	
Chained CPI Index ¹	100.0	101.2	106	114.5	119.2	
% Change		1.2%	4.7%	8.0%	4.1%	19.2%
Real GDP ¹	100.0	97.8	103.5	105.4	108.1	
% Change		-2.20%	5.80%	1.90%	2.50%	8.1%
Nominal GDP ¹	100.0	99.1	109.6	119.6	127.1	
% Change		-0.9%	10.7%	9.1%	6.3%	27.1%

Market Return Decomposition (%), 2019-2023

Inflation	19.2
GDP Growth	8.1
Multiple/Other	+ 20.3
S&P 500® Index Return	47.6

Source: FactSet/Bloomberg/FRED. As of 31 Mar 2024. ¹Indexed to 100. ²Percent change in price during the period. Chained CPI is a measure of consumer spending that accounts for changes in consumer preference and product substitutions due to changes in the relative prices of goods. **Past performance does not guarantee future results.**

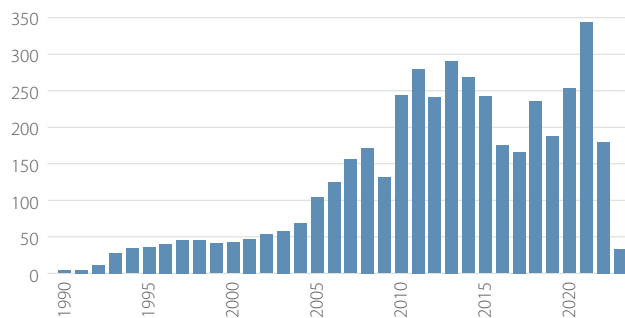
Stock market returns over any period are mostly a function of two variables: earnings growth and multiple expansion. Earnings growth can, of course, be heavily influenced by GDP and inflation. The influence of each starts at the revenue line and then flows down through the income statement and into earnings. A GDP growth business will see its revenue growth generally track with nominal GDP, and if it manages its costs and capital well, it can generate a higher rate of earnings growth. Amid meaningful inflation, if a company can pass it on via higher prices while keeping its own cost increases at or below the rate of inflation, the company's earnings growth rate will benefit. It has been our experience that companies have been mostly able to pass on recent inflation and that inflation has been an accelerant to earnings growth. How much inflation, GDP and company-specific factors contributed precisely is, of course, outside the scope of our simple analysis. But it seems clear to us inflation was a meaningful contributor to earnings and, therefore,

stock market return over the post-COVID period. Inflation rose 19% during the period. Is 19 percentage points out of the S&P 500® Index's cumulative 48% return a reasonable proxy for the impact of inflation on returns? It could be more or less, depending on to what degree companies held their costs at, below or above the rate of inflation, but it is certainly a fair starting point for debate. We can certainly say that some meaningful part of the return was simply the preservation of purchasing power amid an orgy of money printing and fiscal stimulus, and therefore, real returns were meaningfully lower than nominal returns. It is also a good lesson on how equities may serve as a hedge for investors in protecting against the inflation thief.

We should reflect further on GDP growth. The above analysis is based on US economic data and the S&P 500® Index. Were we to do the same analysis for any other country, its GDP component would look much worse and so would its stock market returns to the extent they reflected local economic conditions rather than global ones. Since 2019, US economic performance has left the rest of the world in the dust. Since 2019, Japan's real GDP has grown 1%, the UK 2% and the euro zone 3%. From what we see on the ground, the gap between the US and the rest of the world is only widening. GDP growth in the euro zone and the UK was essentially flat in 2023. Germany went backward. The US grew 2.5%.

The US is by far the world's economic powerhouse for many reasons, most importantly its relatively free and capitalistic nature. Energy independence and population growth also play a large role. We also see evidence of meaningful disinvestment from other countries into the US. German companies, for example, announced a record \$15.7 billion of capital commitments in US projects in 2023, up from \$8.2 billion the prior year. This reflects Germany's difficult investment conditions, in no small part, in our opinion, to the country's self-destructive and highly inflationary energy policies forcing a kind of de-industrialization. It also reflects worsening conditions in China, Germany's largest trading partner. Notably, foreign direct investment in China has collapsed to levels not seen since before China's 2001 ascension to the World Trade Organization.

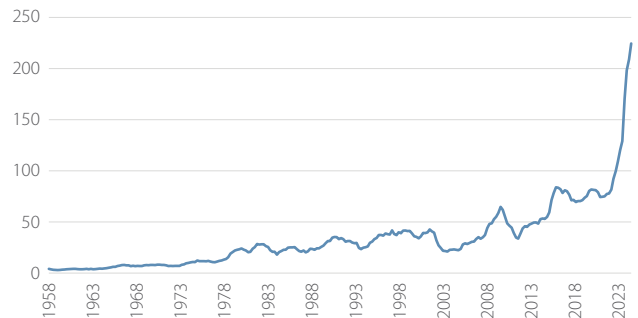
Exhibit 2: Foreign Direct Investment in China, Net Inflows (\$bn, Current USD)



Source: The World Bank/International Monetary Fund/United Nations Conference on Trade and Development/Nikkei Asia. As of 31 Mar 2024.

The US is now the clear frontrunner for investors. Witness 2023 private investment in US manufacturing reaching a level that was multiples of prior peaks.

Exhibit 3: US Private Investment in Manufacturing (\$bn)



Source: FRED (fred.stlouisfed.org). As of 30 Sep 2023.

Given the strength of the US economy, the focus on interest rate cuts within the investment and business communities is perplexing. Inflation has moderated—albeit to levels much higher than the past decade—and the economy is humming. Why do rates need to come down with the economy so strong? In weaker economies such as Europe and the UK, on the other hand, it makes sense that interest rates should fall; their economies are anemic, inflation has cooled and stimulus is arguably needed. And with weak European economies and likely steep interest rate cuts relative to the US, we don't see the dollar weakening any time soon.

One question does jump out at us. Why haven't the aggressive and sizable interest rate increases slowed the US economy? All else being equal they should, especially given the leveraged nature of the US economy.

It's our view that the current restriction from higher rates is more than offset by the stimulative boost from government spending. The fiscal deficit in 2023 was \$1.7 trillion, or 6.3% of GDP. How does that compare to the economic drag on the economy from higher rates? The US has around \$40 trillion of private debt. Rates are up roughly 500bps since March 2022. While the transmission of higher rates on marginal (i.e., new) borrowing is immediate, it takes time to flow through to the stock of debt. Outstanding car loans and fixed-rate mortgages are not impacted by higher rates, for example. Let us assume for the sake of argument that half of the 500bps of hikes has worked its way through the economy. This is probably conservative given the weight of mortgages in the overall level of household debt (almost 70%) and the percentage of mortgages on a fixed rate (also around 70%). At any rate (no pun intended), if 250bps has worked into the economy, the fiscal drag from higher rates on household finances would be about \$1 trillion. That's about a 3% drag on GDP compared to the 6% boost from the deficit. Moreover, as wages and profits have grown while debt service has not, some consumers and companies

have improved their spending power overall. Of course, the longer rates stay at current levels, the larger the percentage of outstanding debt that will reprice.

There is no free lunch, however. The government spending that is powering the economic engine here cannot continue without great risk. The US national debt is already at troubling levels of 122% of GDP. Each year at current spending levels adds a couple or a few percentage points, depending on how quickly the economy grows. Said another way, the deficit is adding to our debt-to-GDP ratio faster than economic growth can lower it. This is not sustainable. Interest costs to service the national debt already exceed Department of Defense outlays. And there are currently no viable pathways toward restoring fiscal balance given the divided and confrontational state of the US electorate. The fiscal situation is the single greatest threat to US economic dominance in the medium and long term.

Portfolio Discussion

Our top-performing stocks in the quarter were Meta, Progressive Insurance and American Express.

Meta rose 37% during the quarter. This is on top of last year's 194% share price increase. The share price is now over 5X higher from where it bottomed in November 2022 and is now trading near an all-time high. It's worth noting that Meta is one of the largest and most closely watched companies in the world, so this magnitude of price movement should serve as a good reminder about how inefficient markets can be. The strong share price is a reflection of both its strong current business performance and optimism about the potential future benefits from artificial intelligence on its business. Its Q4 results were excellent, with healthy user engagement and good revenue growth and cost control. The shares are now fairly valued, and we continued to trim our holdings during the quarter.

Progressive Insurance shares rose 30% during the quarter. After a difficult start to 2023, the company quickly adapted and finished the year with impressive growth in premiums and underwriting profits. In Q4 2023, it managed to grow its customer base even as it raised rates and improved its underwriting ratios—a trifecta that isn't often seen in the insurance industry. This performance has continued, which should set the stage for another year of good results in 2024. Perhaps most importantly, it has been able to navigate the environment far better than its peers, many of whom are still reporting sub-par underwriting performance. Progressive has consistently gained market share in the personal auto market over our ownership period and now commands close to 15% of the total market. Its shares are no longer a bargain, but we continue to hold them due to the high quality of this business and the advantaged nature of its low-cost insurance franchise.

American Express shares rose 22% this quarter. This is an interesting case study given our earlier discussion about inflation. American Express operates one of the largest credit card networks in the world. Its revenue is largely a function of a fee rate applied to the dollar value

of goods and services that are transacted through its network. That dollar value is, of course, nominal. As inflation pushes up the value of those goods and services as it has for the past few years, American Express will capture that value through its fee structure. The past few years inflation has clearly been a benefit. Aside from its inherent inflation protection, the business is a very strong one. Payments continue to shift toward electronic forms, benefiting American Express. It also has a strong brand that attracts loyal and highly profitable customers that are the envy of the industry. Recent results have been strong with revenues moving nicely ahead of GDP.

We only had a few stocks that were down more than a percent this quarter, Expedia, Alibaba and Dentsply Sirona.

Expedia shares declined 9% during the quarter, which is partially just a natural correction after the 47% increase in the share price in the prior quarter. The company reported good Q4 earnings, with revenues growing 10% and profits rising 57%. The business has nearly completed a material restructuring over the past two years, which should set them up to be more competitive with structurally higher profitability. The macro environment is softening, but they believe the changes they have made to the business over the past two years will allow them to still grow double digits and further improve margins in 2024. The capital allocation remains solid. Last year, they repurchased \$2 billion in stock and reduced their share count by 9%. They plan to continue buying back shares and increased their buyback authorization to \$5 billion, which is nearly 28% of the market cap. The shares are trading around 11X EBIT, which is an attractive price for a business with over 10% profit growth.

Alibaba shares declined 7% during the quarter. There isn't much new to say about Alibaba. There was no meaningful news that drove the share price decline. The earnings for the December quarter were fine, with revenues and profits both increasing 5%—not typically an exciting level of growth, but certainly enough to justify the company's paltry valuation of 4X–5X EBIT. As we have written in recent letters, this is a valuation level that is normally reserved for a dying business, and Alibaba is not a dying business. Management continues to implement changes that are intended to increase shareholder value. Over the past year, they have changed management, adjusted the company structure, contemplated spinning off assets, made progress monetizing the balance sheet and have improved the capital allocation. All of these actions have yet to be reflected at all in the share price. This is a stock that could double and would still be cheap.

Dentsply Sirona declined 5% this quarter. Dentsply is one of the world's suppliers of consumables and equipment to dentists in the US and internationally. The company has great market positions, and the dental industry is generally a good one. It grows in line with or above GDP and is nicely profitable for most scale suppliers. Dentsply has been undergoing a turnaround under a relatively new management team. Progress has been visible since the team took over, but distortions coming out of the pandemic have created a volatile operating environment for dental businesses. We sold a large part of

our holding at higher prices in 2023 and exited the stock this quarter into Henry Schein, another company in the dental industry that we think is a better value and in which we started building a position in Q3 2023.

Conclusion

Markets have moved up quickly to start the year. Valuations in the better performing parts of the market such as technology and many things AI-related appear stretched to us. There is no need for interest rates to come down from current levels. We believe it would stoke the inflation fire again given the irresponsible levels of deficit spending. A market driven by earnings growth is a far healthier market and economy than one driven by interest rate cuts. From what we see, earnings are generally strong. We do worry about the lagging economic performance between the United States and just about every other country. The world economy cannot stand on solid ground when more than half of it is slowly melting.

We appreciate your support and will continue to work hard to manage risk and earn attractive returns on your capital alongside our own.

ARTISAN CANVAS

Timely insights and updates from our investment teams and firm leadership

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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.

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