Artisan Select Equity Fund

QUARTERLY Commentary

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

As of 30 June 2023

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 30 June 2023	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception
			Average Annual Total Returns				
Investor Class: ARTNX	**5.45**	**17.37**	**18.98**	**13.14**	—	—	**9.51**
Advisor Class: APDNX	**5.44**	**17.44**	**19.09**	**13.24**	—	—	**9.60**
Institutional Class: APHNX	**5.48**	**17.45**	**19.16**	**13.26**	—	—	**9.65**
S&P 500® Index	8.74	16.89	19.59	14.60	—	—	14.91

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
Semi-Annual Report 31 Mar 2023[1,2,3]	3.52/1.25	3.63/1.15	1.28/1.10
Prospectus 30 Sep 2022[2,3]	3.17/1.26	3.69/1.16	1.40/1.11

[1]Unaudited, annualized for the six-month period. [2]Net expenses reflect a contractual expense limitation agreement in effect through 31 Jan 2024. [3]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. Performance may reflect agreements to limit a Fund's expenses, which would reduce performance if not in effect.

Market Overview

Equity markets gained in Q2. Inflation remains stubbornly high, but it appears to have mostly plateaued. The debate on interest rates waxes and wanes: They will certainly go higher and stay high, or they will fall back down to pre-pandemic levels when inflation is broken. The economy will have a soft landing, or it will fall into recession. Our crystal ball is as hazy as anyone else's.

Even if we knew the direction of the macroeconomy in the short term, we don't know how much good it would do us in predicting individual share price performance. Consider this: The cost of a mortgage in the US is roughly twice what it was a year ago. If we had predicted this correctly, we probably would have been inclined to short house prices and housing stocks. But house prices are actually flat or up in most places, and home builder stocks have done well. Europe fell into a recession in Q1 and is bouncing along the recession line as we speak. Yet Heidelberg Materials, a European cyclical, is up almost 50% this year.

Share price gains were not universal around the world. Value stocks saw low- to mid-single digit gains in general. Stocks outside the US performed similarly. To a large extent, "international" is a proxy for "value" these days. There are few high-quality growth companies outside the US, at least in the sense that we now understand the term "growth" as equating to "information technology." This is a profound observation about the differences between the US economy and almost every other. Europe is economically stagnant and overregulated with policies that suppress innovation and entrepreneurialism. The same can be said for Japan, but even more so.

It's an oversimplification, but not an entirely inaccurate one, to state that the US has a monopoly on the fastest growing, most dynamic industry the world has ever seen. China has done far better than Europe and Japan in developing a tech industry, but geopolitical events are unfortunately leading to China's isolation from the West. China depends on the West for cutting-edge semiconductor technology, and the West is barring the sale of those products to China. The net result is an enormous and enduring economic competitive advantage for the US.

In our opinion, the US is more relatively advantaged than it has been since the end of WWII. As US citizens, we can be thankful as the country is also perhaps in the worst absolute condition of our lifetimes: Public finances are a disaster, demographics are a large long-term headwind, and our social and political fabric is dangerously torn. But almost all other countries are worse off.

US stocks massively outperformed international this quarter: The S&P 500® Index was up about 9% while the MSCI EAFE Index was up about 3% in US dollar terms. But gains in the US were extremely narrow, perhaps the narrowest we have seen in our careers. Seven mega-cap tech stocks accounted for two thirds of the S&P 500® Index's gain. And most of them are expensive. Stripping out those seven names renders the S&P 500® Index's performance in line with international markets. Said another way, the average stock around the world gained a few percent while US mega-cap tech crushed it. Analysis of the MSCI All Country World Index is similar. More than 2,900 companies are in the MSCI AC World Index. Those same seven stocks accounted for more than half of that index's quarterly and YTD returns. Said a slightly different way, 0.25% of the companies in that index drove 54% of its return. Wow.

Exhibit 1: Ultra-Narrow Equity Market Leadership

	S&P 500® Index			MSCI AC World Index			
	Weight (%)	Contribution to Return (%)		Weight (%)	Contribution to Return (%)		2024 P/E
	Q2	Q2	YTD	Q2	Q2	YTD	
Apple	7.35	1.28	3.02	4.52	0.78	1.80	29.4
Microsoft	6.63	1.22	2.43	3.62	0.65	1.28	33.2
NVIDIA	2.31	1.08	2.18	1.33	0.62	1.22	61.2
Amazon	2.89	0.73	1.34	1.71	0.43	0.77	50.7
Alphabet	3.65	0.59	1.20	2.15	0.33	0.68	19.8
Meta	1.55	0.51	1.19	0.90	0.29	0.67	20.6
Tesla	1.52	0.41	1.13	0.90	0.25	0.65	61.7
Tech 7 Total	**25.91**	**5.82**	**12.49**	**15.14**	**3.35**	**7.07**	
Index Return		8.74	16.89		6.18	13.93	
Tech 7 Share of Total Index Return (%)		66.59	73.95		54.21	50.75	

Source: Bloomberg/MSCI/S&P. As of 30 Jun 2023. **Past performance does not guarantee and is not a reliable indicator of future results.**

Artificial intelligence (AI) largely explains the Q2 outperformance of technology related companies. AI came to the forefront of investors' minds this quarter and turbocharged mega-cap tech stocks. AI is not new. Any software that engages in activities such as learning and problem-solving is AI. Machine learning is the most common form. When algorithms process large amounts of data and present it in analyzable form, that's machine learning. It can be used for real-time data analysis in a manufacturing plant or by an underwriting team at an insurance company.

Deep learning is a form of machine learning, and probably the one that propels AI into the realm of science fiction, at least as it was imagined 15 years ago. Self-driving cars use deep learning technology. This is what allows them to not only process enormous and changing inputs but also learn from and contextualize them. In this sense, machine learning takes on human characteristics.

But natural-language programming (NLP) is what really hit investor consciousness this quarter. Simplistically, these are AI programs that can interact with the human language. Chatbots, such as OpenAI's ChatGPT used by Microsoft Bing and Alphabet's Bard, are natural language programming AI. ChatGPT can create a legal brief in seconds, write a short story and draw up a contract. The potential applications of this technology are seemingly limitless, exciting and also terrifying.

Investors are clearly very enthusiastic about AI. The quarter felt very much like a hunt for which companies will emerge as winners in the era of AI. But as we pointed out, AI is not a single thing, and it is not new. Software is deeply ingrained in our economy already. Alphabet has been working on self-driving cars for about a decade. NLP has certainly jumped to the forefront of our minds, but we have had Apple's Siri on iPhones and Amazon's Alexa for years. Recent results from Nvidia, which supplies high-power semiconductors for AI applications, were stunning and focused investor attention on the growth potential. In two days, Nvidia added the market cap equivalent of McDonald's. Apple launched a virtual reality headset, and it got a lot more attention than the virtual reality headsets Meta has been selling for years.

Our point is that AI is a continuation of the trends we have been seeing for years. Computing power will increase. Software will continue to make inroads. Natural language applications will boost productivity across many industries, disrupting some while creating others. Almost all businesses will be impacted in much the same way as the Internet impacted every business.

Predictions made in Q2 2023 about the future winners and losers could be as accurate as the predictions made about the digital revolution at the peak of the Internet bubble in 1999. Remember Vodafone, the world's largest cell phone network operator? It traded at more than 100X earnings at the tech bubble's peak. It's down more than 80% since then and trades at 9X earnings. It's certainly tempting to draw comparisons between the tech bubble of the late 1990s and today.

We think some comparisons are valid and others are not. The tech bubble was driven at least in part by speculative and unproven companies. But today's tech leaders are durable, real businesses with enormous competitive advantages. Most of them are simply expensive. The more valid comparison is the narrowness of the returns. Then as now, the market was driven by one area. Most other areas were either left for dead or neglected, resulting in attractive valuations. The same can be said today. Outside tech, most stocks are not up much if at all. And many of them trade for single-digit or low double-digit valuations. Indeed, even as the tech revolution transformed the real economy from 1999 to 2009, cheap stocks outperformed. The future could rhyme with the past. Most investors and most portfolios don't seem to recognize that possibility, focused as they are on the technology sector.

Portfolio Discussion

Our best performing stocks this quarter were Meta, Alphabet and Aramark.

Meta was the largest contributor to performance. Its shares have almost fully recovered from last year's declines, rising 35% during the quarter and 138% YTD. During the quarter, the company reported earnings that showed a return to growth and healthy user engagement metrics. Most importantly, profitability appears to have stabilized and is poised to improve as significant cost reduction actions implemented over the past six months begin to have an impact. Separate from fundamental performance, there is excitement over AI's potential to help the company's business. While Meta's technology prowess and massively scaled media platform certainly position the company to take advantage of AI, we believe it's far too early to estimate any discrete tangible benefits. Overall, we view AI as one of several drivers that will contribute to Meta's continued growth.

The rise in Alphabet's share performance was primarily driven by the AI frenzy. Earlier this year, there were some doubts about Alphabet's ability to compete with OpenAI's ChatGPT product. This was a bit ironic since Alphabet has been using AI technology to improve its Google search results and advertising business for years. Indeed, the technology that underpins OpenAI's ChatGPT actually came from Alphabet more than five years ago. But sometimes the market needs a reminder, and Alphabet provided tangible evidence of its capabilities. At a recent developer conference, it launched Bard, a consumer-oriented generative AI version of its search engine, as well as several other concrete examples of how AI could improve its current business. As with Meta, the long-term implications of AI on Alphabet's business model are still far from certain. But we do believe that it is a technology leader in this field and will participate in whatever direction the technology develops.

Aramark's share price rose about 21% this quarter. Aramark is one of the world's largest contract catering businesses, and it also owns a uniforms business. The vast majority of the value is found in the catering business. This is an attractive, secularly growing business. A large part of the on-site catering industry is not yet outsourced, though the economic and operational and quality advantages of outsourcing to a company such as Aramark continue to drive gains for outsourcing. The business is performing well. It is recovering from the pandemic as many on-site services were shut down during COVID but are now normalizing. In addition, the pandemic is driving increased levels of outsourcing as clients realize the many advantages of scaled professional operators providing the service rather than doing it themselves. The share price of Aramark declined in Q1 2023 as investors became concerned about how well the company could manage inflation and protect its margins. We added to the position on weakness. The share price recovered in Q2 as these fears receded.

Our worst performing stocks this quarter were Alibaba, Advanced Auto and Harley Davidson.

Alibaba shares declined 18% as China's economic recovery from the pandemic has been slower than expected, impacting Alibaba's retail business. The company's core e-commerce business has yet to return to growth, with online shopping volumes down 5% in Q1. Despite the slow recovery, management has been proactive in implementing actions that should eventually create value for shareholders. It has meaningfully reduced spending on loss-making businesses, which has allowed it to grow profits in a weak revenue environment. Alibaba has also implemented a plan to effectively break up the company into six parts, which should force the market to recognize the value of the many businesses hidden beneath its surface. On top of this, there are signs the government is ending its regulatory attack on domestic tech companies, which should allow Alibaba to realize some of the value from its investment in Ant Financial. We estimate the underlying business is trading at around 5X unlevered earnings, which makes it one of the cheapest valuations for a high-quality business that we have seen in our careers.

Advance Auto shares declined 40% as the company continues to underperform its peer group. It also reset its growth and profitability outlook. The business now expects to have flat revenue growth and 5% margins this year. This compares to 4%–5% growth and 20% margins for its primary competitor. The company's planned turnaround has largely failed, with expected profits this year to be lower than they were when now-departing CEO Tom Greco took over in 2016. Given the poor operational performance, we exited our position during the quarter.

A brief post-mortem is appropriate. Our initial investment thesis revolved around a cheap valuation for a company operating in an attractive industry that should have been able to close its performance gap with peers. The operational improvement never happened, which means this is appropriately characterized as a mistake. We had sold the vast majority of our position at much higher prices and exited the small remaining holding this quarter.

Harley Davidson's share price declined 7% this quarter. Harley has been weak over concerns that motorcycle sales will decline in the face of weakening consumer purchasing power, which is being eroded by inflation. In addition, rising interest rates and normalizing credit losses after unsustainably low losses during the pandemic are pressuring the financial services business. Consumers are clearly more cautious today than a year ago, and Harley offers discretionary, luxury products. Demand could certainly decline in the near term. It must be said, however, that through a downturn we believe Harley will protect its earnings and its balance sheet well, and certainly better than in the past. The current management team has managed Harley for value rather than volume. They have managed the product lineup well and attempted to keep inventory levels at or below demand. In addition, the supply chain and manufacturing operations are more flexible than in the past, which we think will help them adjust to any temporary declines in demand. The brand is in excellent shape as evidenced by record attendance at the recent 120th anniversary celebration.

Conclusion

Share prices outside the technology sector have underperformed the broader market and remain attractively priced. Absent a severe recession, we expect these areas of the portfolio to drive returns in the short and medium term. We appreciate your support and remain heavily invested alongside you.

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

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. MSCI EAFE Index measures the performance of developed markets, excluding the US and Canada. The index(es) are unmanaged; include net reinvested dividends; do not reflect fees or expenses; and are not available for direct investment.

This summary represents the views of the portfolio managers as of 30 Jun 2023. 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. These holdings comprise the following percentages of the Fund's total net assets (including all classes of shares) as of 30 Jun 2023: Meta Platforms Inc 5.6%, Alphabet Inc 5.2%, Heidelberg Materials AG 5.0%, Aramark 4.6%, Alibaba Group Holding Ltd 3.9%, Harley-Davidson Inc 3.9%. 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.

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.

Unlevered earnings refers to net operating profit after tax (NOPAT), which shows how well a company performed through its core operations, net of taxes. **Price-to-Earnings (P/E)** is a valuation ratio of a company's current share price compared to its per-share earnings.

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