Artisan Select Equity Fund

QUARTERLY Commentary

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

As of 31 March 2025

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 2025	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception
			Average Annual Total Returns				
Investor Class: ARTNX	**5.79**	**5.79**	**10.38**	**10.12**	**17.29**	—	**12.01**
Advisor Class: APDNX	**5.85**	**5.85**	**10.54**	**10.22**	**17.41**	—	**12.11**
Institutional Class: APHNX	**5.82**	**5.82**	**10.54**	**10.30**	**17.46**	—	**12.17**
S&P 500® Index	-4.27	-4.27	8.25	9.06	18.59	—	15.22

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 2024[1,2]	3.12/1.25	3.83/1.15	1.18/1.10
Prospectus 30 Sep 2024[1,2]	3.13/1.26	3.84/1.16	1.19/1.11

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

Past performance does not guarantee and is not a reliable indicator of future results. Investment returns and principal values will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than that shown. Call 800.344.1770 for current to most recent month-end performance. Performance may reflect agreements to limit a Fund's expenses, which would reduce performance if not in effect.

MIGA: Make International Great Again

We are not immune to the zeitgeist. A pithy acronym echoing Donald Trump's political movement and adapted for the recent turn in the market is just irresistible. Markets in Q4 of last year certainly followed Trump's MAGA theme. The US market boomed post-election, especially big tech companies and the US dollar. America's economy and markets seemed on the verge of continued unabated ascendence, fueled by memories of the pro-business, light-touch regulatory approach during Trump's first term. In our Q4 letter, we cautioned that the future is uncertain. US markets looked awfully frothy. Everyone seemed certain that it would continue.

It certainly has not. The post-election "Trump bump" has been undone, and then some. The US equity market was the world's worst performing major market in Q1, down 5%. China was the best, up 15%. Europe was strong, up 6%, but in US dollar terms it gained 10%. The MSCI EAFE Index, the long-suffering international benchmark, rose 3% in local currency and 7% in US dollar terms. The US dollar declined meaningfully against most currencies.

Value investing regained some respect for the first time in a long while. (Too darn long in our biased opinion.) Value outperformed growth across the board. The US Value Index gained 3%, while the broader S&P 500® Index declined by 5%. The MSCI ACWI World Value Index gained 5%, and the MSCI ACWI Index declined 1%.

Investors who have only known the past 10 years will have felt as if they fell into another dimension. Growth tanked. The US tanked. The Magnificent Seven tanked. Does the sun still rise at dawn?

A few factors are at work here. Trump seems committed to ending the war in Ukraine. Since the war started, there has been no talk of anything but continued military support for Ukraine. But Ukraine will never win a war against Russia, absent direct US military involvement, which we hope and assume will never happen. Ukraine does not have the men or the money to overcome Russia's population and resource advantages. This reality was only ever said in hushed tones during the Biden years. Trump is saying it out loud. Nobody knows whether this change will result in peace or not and on what terms. The war in Ukraine has weighed heavily on European business confidence, energy stability and consumer confidence. Peace would be a huge positive, and markets have started to price in this possibility.

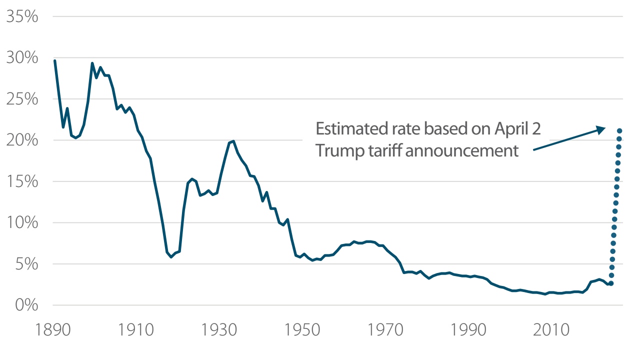
Europe is also trying to kickstart its languid economy. Germany, the largest economy in Europe, has a new government that announced a large-scale fiscal expansion. Germany will break its decades-long debt cap to borrow money for military and infrastructure investment. Germany has decimated its military readiness over the past few decades by shifting money toward social welfare programs instead. Military spending levels have been far below the requirements of the North Atlantic Treaty Organization (NATO) membership. Trump has forced this issue by threatening to pull US military protection if Germany and other European countries don't start honoring their NATO commitments. European countries are now scrambling to boost defense spending.

And then, of course, there is valuation. US stocks, particularly tech stocks, have had such a phenomenal and unabated run that expectations and valuations reached, perhaps, unsustainably high levels. International stocks are a lot cheaper. Expectations are much lower. Sometimes cheap just becomes irresistible.

But much of the past quarter's events seem like ancient history. Just after Q1 ended, President Trump announced his "Liberation Day" tariffs, promptly sending the market into a nosedive. Let us share our views.

Trump raised US tariffs to the highest level since the Smoot-Hawley Tariff Act of 1930, which is widely accepted to have been an economic disaster.

Exhibit 1: US Tariffs Could Hit Their Highest Level in More Than a Century
Average US Tariff Rate on Imports



Source: Tax Foundation, 2025.

The Trump administration described its tariffs as reciprocal, which is a term that suggests they are treating our trading partners in the same way that they treat us. This is misleading. The tariffs include a 10% level for all countries, plus an amount that is essentially a proxy for the size of the US trade deficit with each respective country. The larger the trade deficit with the trading partner, the higher the commensurate "reciprocal" tariff. The current US trade deficit in aggregate is about $1 trillion.

The trade deficit has grown nearly unabated since the 1980s and is one of the symptoms of the US dollar as the world's reserve currency. This results in a strong dollar, which makes our exports more expensive and imports cheaper, and widens budget deficits, which finance consumption greater than our current earnings power. Most economists agree that trade deficits are a meaningful problem: We are essentially exporting our productive capacity to other countries. Combined with budget deficits, we are borrowing from the future in order to consume goods that we cannot afford.

A simple example is helpful. The government mails every American a $500 check. That money is borrowed by issuing Treasurys. Most Americans spend some or all of the windfall on TVs, sneakers, handbags, jewelry and other goods, almost all of which are imported. In this case, our wealth is borrowed and then exported to the countries that make the goods. We are left with junk that ends up in landfills, plus the debt we took on to pay for it.

Warren Buffett wrote an excellent piece on the dangers posed by the trade deficit in 2003 when it was "only" about $400 billion. We include a link here: https://www.berkshirehathaway.com/letters/growing.pdf.

Our trade and budget deficits are well-known problems that we believe need to be addressed. But like a frog in the slowly boiling pot, our leaders don't feel any urgency to address either. One day, we expect one or both will cause a crisis of some kind.

Are these "Liberation Day" tariffs a solution to these problems? Sort of. Maybe. And definitely not.

In the case of our two largest trading partners, China and Europe, we believe there is room for improvements in the terms of trade. Europe imposes higher tariffs on US goods than we do on European goods (or at least did before the "Liberation Day" tariffs went into effect). It also engages in other protectionist measures that tilt the trade relationship in their favor. There are also valid arguments for why China should improve its terms of trade with the US in order to balance what has long been viewed as an unbalanced relationship. For example, there have long been significant barriers to US companies investing directly in China that have not existed for Chinese companies investing in the US.

Given the size of their trade deficits with the US, Europe and China are heavily incentivized by the new tariffs to rebalance their terms of trade with us, either by reducing their tariffs, buying more from the US and/or scaling back their non-tariff barriers to US goods.

In other cases, the new tariff schedule is incoherent. The 10% across-the-board tariff on all countries applies regardless of circumstance. We have a trade surplus with Brazil, not a deficit. Same for Colombia, Australia, the Netherlands and the United Kingdom. If the tariffs are meant to eliminate trade deficits and incentivize manufacturing investment in the US, we view putting a tariff on surplus countries as a solution in search of a problem.

In some situations where we have a trade deficit, we think it is neither possible nor desirable to eliminate it. We have a large trade deficit with Vietnam, for example. It is a poor country with cheap manufacturing that sells us a lot of Nike sneakers. Vietnam will never buy as much from us as we buy from it. It is too poor. The current tariffs just mean more expensive sneakers or fewer of them. Nike is not likely to move its manufacturing to make sneakers in the US at 10X the labor cost. It will simply raise prices and/or sell its sneakers to other countries. Vietnam loses. America loses. The world hypothetically is poorer.

As proposed, the "Liberation Day" tariffs are an enormous consumption tax on US citizens. Given the scale of our imports, almost everything consumed in this country will become more expensive. It amounts to maybe a $3 trillion tax increase over 10 years, or roughly $2,000 per household in 2025. Based on a household income of around $50,000 (less after taxes), that's a big tax increase. So yes, the tariff math is such that the US Treasury Department will bring in more tax revenue ($800 billion a year, perhaps), which will help close the more than $2 trillion budget deficit as well as reduce the trade deficit. This is, of course, a static analysis. If import prices rise by double-digit percentages, Americans will likely consume less and import less, limiting how much additional tax revenue will be raised.

Such a massive tax increase and the commensurate decline in consumption also are expected to have meaningfully negative impacts on the broader economy. A smaller economy means less tax revenue and larger automatic transfer payments, which further serve to increase spending, reduce tax revenue and widen the budget deficit. And finally, if other countries are not receiving as many US dollars from Americans purchasing their goods, demand for US Treasurys will decline, and the interest rate on federal government borrowing will likely go up since a smaller pool of buyers will demand higher returns (i.e., a higher rate) on their investment. Since interest costs are now almost 20% of government spending, this is not an insignificant consideration.

It's clear why politicians haven't solved the twin deficits problem. There is no easy solution, and easy is what politicians do best.

What about Trump's objective of bringing manufacturing jobs and investment back into the US? It seems fairly uncontroversial to us that more expensive imports will certainly incentivize companies to invest directly in the US rather than invest outside the US and then import their goods back to market. We can point to examples of this happening as we speak. But we import so many goods into this country that will simply never be made in the US. We mentioned Vietnam and sneakers previously. We could say the same about many other imported products. Coffee comes to mind. Swiss-made mechanical watches. And so on.

Moreover, any manufacturing and investment redirected into the US will happen very slowly. Probably measured in decades. The political cycle is two years long. A policy that causes near-term pain for distant payoffs may not survive the political cycle.

Our central thesis right now is that Trump's "Liberation Day" tariffs are a shock and awe strategy meant to bring countries to the table, rather than a serious final policy. As currently released, the tariffs will likely do meaningful damage to the country. Inflation will rise. Consumers will feel immediately poorer. Small businesses will fail. We will likely have a recession. The damage will not be limited to the US. Other countries are in a worse situation. Any country that has a trade surplus with the US (almost all major economies) is, by definition, worse off. The US is the customer, and they are the suppliers. This is, of course, the leverage that we believe Trump is trying to exploit. But the longer it takes to moderate the initial tariff schedule, the greater the damage. Business confidence is likely down already, same for consumer confidence. A recession may already be impossible to avoid.

Portfolio Discussion

Our top performers this quarter were Heidelberg Materials, Alibaba and Berkshire Hathaway.

Heidelberg was up 33% in euros and 38% in US dollar terms this quarter. The company has been performing well operationally and allocating capital sensibly. But that has been true since we purchased our position in 2020. Investors have been drawn to Heidelberg lately for three reasons, we think. First, Europeans seem to be coming to terms with the fact that the world will not achieve net-zero in our lifetimes, and therefore, cement is not going away. This realization probably makes Heidelberg more investable for many Europeans. Second, the prospect of an end to the war in Ukraine would seem to be very positive for Heidelberg. Ukraine will need to rebuild, and it will need a lot of cement to do so. While Heidelberg would benefit only modestly from direct volumes into Ukraine, European cement prices, broadly speaking, might benefit from increased demand. And finally, the German infrastructure plan is expected to benefit Heidelberg.

Alibaba's share price climbed 56%. This was clearly a welcome development. Unfortunately, it does not change the fact that this has been a failed investment for us. China was the best performing market in the world with a 15% gain during Q1. Alibaba's e-commerce business also showed signs of life as results stabilized relative to the rest of the Chinese e-commerce industry. Alibaba may also be emerging as the artificial intelligence (AI) leader in China. Since the US is essentially in a cold war with China, at least on the technology front, we felt that Alibaba's success in AI (a critical national security focus) makes it a potential target for the Trump administration. This is why we sold half of our position during the quarter.

We sold the rest of it after the quarter ended in response to the "Liberation Day" tariffs. We assumed that China and the US would likely escalate their long-standing trade war.

Berkshire Hathaway's shares rose 17% during the quarter. The most interesting thing about this company is its ability to deploy cash across a variety of different investment opportunities—public markets, private markets, internal capital expenditures and insurance markets. Last year, the primary driver of profit growth was its insurance operations and related investments, which benefited from a rebound in its auto insurance business (GEICO), a hard market in property and casualty (P&C) reinsurance, and significantly higher investment income due to higher interest rates. The company is exceptionally well capitalized, with over $300 billion in cash and short-term investments at the end of last year. While the shares are no longer a bargain, we continue to like the diversified nature of the company's cash flow-producing portfolio and have confidence in Buffett's ability to allocate his massive war chest.

Our worst performing stocks in the quarter were Alphabet, PayPal and American Express.

Alphabet's shares were down 18% during the quarter. It's always tempting to try diagnosing why a company's share price moved. We could discuss the implications of AI, regulatory issues and its $32 billion acquisition of cloud security provider Wiz. All of these are worthy fundamental issues. However, its shares fell about as much as the other Magnificent Seven stocks. Google's operating performance remains good. It is investing a massive amount of capital expenditures (capex) in AI infrastructure this year, which is sensible given it is well positioned to be a leader in this field. The valuation is now far more attractive than it was at the end of last year.

PayPal's share price declined 24%. PayPal is among the largest two-sided payment networks in the world. It has 434 million total accounts, of which about 20 million are merchant accounts. Most of PayPal's profitability comes from its branded checkout—when a consumer clicks the PayPal button to complete an online purchase. The company's shares have performed poorly since it released Q4 results in February. PayPal generated solid growth in the branded business (6%) but failed to generate any acceleration from Q3, which some other e-commerce companies experienced. PayPal's US volumes accelerated, but it was offset by weaker performance in Europe. The company also continues to face questions about competitive threats from Apple and Shopify.

Before a new management team took over in 2023, PayPal had pursued volume growth at almost any cost, which led to a push into lower margin payment processing and gross margin declines. Alex Chriss took over as CEO in 2023 and refocused the company on profitable growth. The company succeeded in 2024, growing gross profit dollars by 7% and adjusted operating profits by 14% for the year. We took a small position in PayPal last year as we saw a clear path for the new management team to accelerate profitable growth. Competitors undoubtedly have strong offerings in certain areas, but PayPal adds value with its ubiquity across both users and merchants. The company has a number of initiatives to accelerate branded growth and relevance, including improving the customer experience and offering advertising data to merchants. The company also has a relatively clear path to increasing monetization at Venmo. We believe there is room to grow operating margins through expense discipline and to reduce the share count given a net cash balance sheet and excellent free cash flow generation. We believe the business should be able to generate double-digit EPS growth in the medium term across a range of outcomes. At current prices, the shares trade for about 12X 2025 earnings, a valuation which more than accounts for the execution risks of its strategy.

American Express' share price declined 9%. Recently reported results were good, although 2025 guidance was cautious (appropriately so, in our view), and the market didn't like that. We find the guidance game to be a bit ridiculous. Nobody knows what is going to happen over any time period, and share price reactions often reflect investors' positioning based on what they think everyone else thinks is going to happen. At any rate, American Express' share price performance had been very strong heading into this quarter, and a bit of a pullback was not inappropriate. If we go into a recession, its shares will likely decline further. We have owned the stock since 2020 and expect to do so for a long time into the future. It's a fantastic business with good growth prospects. We have no idea what will happen in the next quarter or year.

During the quarter, we added Shell to the portfolio and exited our investment in Danone. Danone's shares were approaching their target price, and we believed that Shell offered a better risk-adjusted return.

Shell is one of the world's largest integrated oil and gas companies. The business has a durable portfolio of oil and gas resources, which includes a global leadership position in liquefied natural gas (LNG), an attractive and growing market.

The business has been materially transformed over the past two years by a new management team that understands value creation. CEO Wael Sawan and his team have adjusted the capital investment plan to be more focused on the core business and generating returns. Management has also used the company's strong free cash flow (FCF) to add significant value for shareholders through capital allocation. Over the last three years, Shell has produced about $100 billion in FCF, and the management team has returned all of it through a combination of dividends, buybacks and debt reduction. The current market capitalization is about $200 billion, which means the company has returned over half the market cap to shareholders over the past three years.

We are attracted to the company's assets, management and capital allocation. But our primary attraction to Shell is the valuation. When we bought the shares, it was trading at 9X–10X earnings, with a 10% FCF yield and a 4.5% dividend yield. What's interesting about the multiple is that it trades at a big discount to its US peers. Shell is trading below 10X earnings, while Exxon and Chevron trade at 15X. We believe this is due to the ESG pressures that are put on European companies and investors to avoid oil and gas companies.

This creates a mispricing opportunity that we are more than happy to exploit. We believe the demand for fossil fuels will be around for a long time, and the world will need reliable and responsible companies to supply it. Recognition of this reality has mostly taken hold in the US, and it is now slowly seeping into the European ethos. As we write, the planned EU ban on combustion car engines and related emissions targets are being postponed, and we expect more of these policies will eventually be rolled back. This should help to remove the overhang on oil and gas companies.

In the meantime, we believe Shell is well positioned to continue generating attractive cash flow for the foreseeable future. The company has paid down debt and is now essentially unleveraged, with less than 0.5X net debt to FCF. It recently unveiled a plan that will allow it to keep production growing with limited capital investment. This should leave us with a steady stream of cash flows that will be returned to shareholders at a very attractive valuation.

Conclusion

The selloff after quarter-end made valuations more attractive. Earnings estimates are likely too high given the negative impact tariffs will almost certainly have. The duration and extent of earnings pressure will be a function of how long current tariff policies stay in place. Our guess about earnings in the near term is as bad or as good as anybody else's. But the lower stock prices go, and the more attractive valuations become, the more we are compensated for earnings and recession risks. We will proceed with the same humility, curiosity and effort as always and hope to deploy our capital into bargains as they become available.

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

Carefully consider the Fund's investment objective, risks and charges and expenses. This and other important information is contained in the Fund's prospectus and summary prospectus, which can be obtained by calling 800.344.1770. Read carefully before investing.

Current and future portfolio holdings are subject to risk. The value of portfolio securities selected by the investment team may rise or fall in response to company, market, economic, political, regulatory or other news, at times greater than the market or benchmark index. A portfolio's environmental, social and governance ("ESG") considerations may limit the investment opportunities available and, as a result, the portfolio may forgo certain investment opportunities and underperform portfolios that do not consider ESG factors. 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.

S&P 500® Index measures the performance of 500 US companies focused on the large-cap sector of the market. The S&P 500® Value Index includes stocks meeting value criteria based on the ratios of book value, earnings, and sales to price. MSCI All Country World Index measures the performance of developed and emerging markets. MSCI All Country World Value Index measures the performance of companies across developed and emerging markets that exhibit value style characteristics according to MSCI. 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.

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This summary represents the views of the portfolio managers as of 31 Mar 2025. 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 31 Mar 2025: Berkshire Hathaway Inc 6.1%, Shell PLC 5.6%, American Express Co 4.8%, Alphabet Inc 4.7%, Heidelberg Materials AG 4.4%, Alibaba Group Holding Ltd 1.9%, PayPal Holdings Inc 1.7%. 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.

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Price-to-Earnings (P/E) is a valuation ratio of a company's current share price compared to its per-share earnings. **Capital Expenditures (capex)** to either purchase fixed assets or to upgrade existing fixed assets having a useful life longer than the taxable year. **Earnings power** is a figure that telegraphs a business's ability to generate profits over the long term, assuming all current operational conditions generally remain constant. **Earnings per Share (EPS)** is the portion of a company's profit allocated to each outstanding share of common stock. **Free Cash Flow** is a measure of financial performance calculated as operating cash flow minus capital expenditures. **Free Cash Flow Yield** is an overall return evaluation ratio of a stock, which standardizes the free cash flow per share a company is expected to earn against its market price per share. The ratio is calculated by taking the free cash flow per share divided by the share price. **Magnificent Seven (M7)** is a term used to describe large US companies: Apple, Amazon, Alphabet, Tesla, NVIDIA, Microsoft and Meta.

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