

Artisan Partners U.S. Value Team

Investment Philosophy and Process

Artisan Value Equity Strategy

Artisan U.S. Mid-Cap Value Strategy

Artisan Value Income Strategy

A R T I S A N



P A R T N E R S

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.

For Institutional Investors Only – Not for Onward Distribution

We seek cash-producing businesses in strong financial condition that are selling at undemanding valuations.



An In-Depth Discussion with Eric Colson, CEO

A Distinctive Investment Culture

Visit: www.artisanpartners.com/InvestmentCulture



Artisan Partners U.S. Value Team

Our Investment Team

Our investment team is led by three portfolio managers—Dan Kane, Tom Reynolds and Craig Inman. Dan joined the team in 2008, Craig joined in 2012, and Tom came on board in 2017. We have a collaborative approach to investing, and each member has a high level of trust and confidence in each other's capabilities. Together we manage Artisan Value Strategy, Artisan U.S. Mid-Cap Value Strategy and Artisan Value Income Strategy.

Though our title is "portfolio manager," we think of ourselves as stock pickers. Each of us functions as a generalist with respect to investment research, and the entire team works together on considering potential investments. A significant amount of discussion is had between team members before a stock is added to a portfolio. We interact on a daily basis, challenging each other's ideas and ways of thinking. We regularly discuss the risks involved with each individual investment idea so that we can best understand where to position a holding within the portfolio. We do not operate under a hierarchy, though each investment has a portfolio manager sponsor.

Our Investment Philosophy

Our investment philosophy can be summarized by the following statement: *We seek cash-producing businesses in strong financial condition that are selling at undemanding valuations.* Our effort is geared towards stacking the deck in our favor, i.e. we want the business on our side, the balance sheet on our side and valuation on our side. Since our team was established in 1997, experience has taught us that investing in companies with these characteristics tilts the risk/reward in our favor over the long term.

From a valuation perspective, we desire companies that are trading at a distinct discount to underlying worth. Our process is geared toward investing in low expectation situations. These situations are often found in areas of the market where high levels of fear and anxiety exist. Our belief is that if a high level of pessimism is already baked into the stock, risk/reward will be tilted in our favor.

We seek companies with healthy balance sheets, strong liquidity and financial flexibility. Focusing on financial condition helps us in many ways. A company with a strong financial position can reinvest in its

We take a private business owner’s perspective and focus on the free cash flow and return on capital capabilities of the business.



business, make acquisitions at opportune times, buy back stock and/or pay down debt. Additionally, our experience has taught us that when we are wrong on an investment and it has a sound financial condition, we will still lose money, but we should lose significantly less than if we were invested in a company that was highly levered.

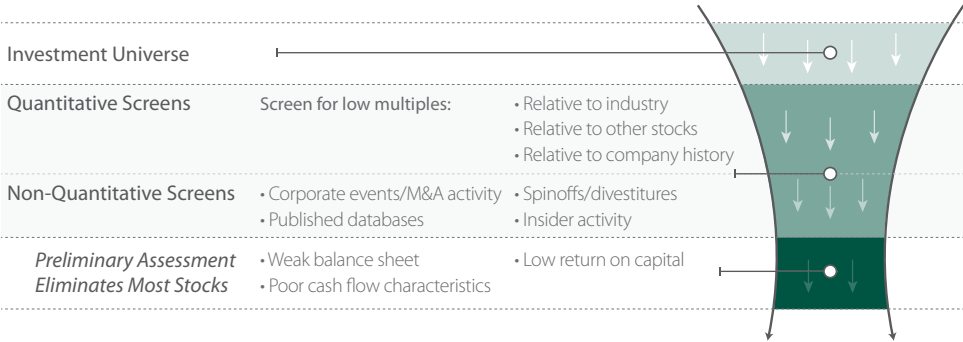
For the business economics characteristic, we take a private business owner’s perspective and focus on the free cash flow and return on capital capabilities of the business. These two elements are necessary ingredients for the long-term prosperity of a business. Focusing on these elements helps us avoid value traps and instead targets situations where the potential exists for growth in business value.

All three of these characteristics are critical to our investment process. Our goal is to find investments that are strong on all three counts. We think of these characteristics as analytical guardrails that help us avoid taking on excessive business and/or financial risk.

Our Investment Process

We employ a bottom-up investment process to construct a diversified portfolio of value-oriented investments that we believe are undervalued, in solid financial condition and have attractive business economics.

We generate investment ideas in lots of different ways. Our objective is to be open-minded and resourceful as we search for new investments. We use a variety of quantitative and qualitative screens to help narrow our universe. Some of the quantitative screens include low price-to-earnings, low price-to-book and low price-to-cash flow ratios. Non-quantitative screens include published databases, spin-offs/divestitures, insider activity and corporate events. We are constantly sifting through our investment universe, but due to our stringent criteria most ideas are quickly eliminated.



For illustrative purposes only.

Once a potential investment candidate has been identified, we proceed with an in-depth analysis. Steps include a thorough analysis of financial statements, a company’s competitive position, business economics and valuation.

The goal of valuation analysis is to establish a conservative estimated range of a company’s intrinsic value and invest at a discount to that range. We utilize many valuation tools, including the examination of normalized free cash flow multiples, price-to-book value, sum of the parts and M&A multiples. It is important to note that we do not utilize a “one size fits all” valuation approach. The use of these tools varies by each individual investment opportunity depending on the company and related industry. The most common tool we use is a normalized earnings approach. When a company is priced at a meaningful discount to its average historical multiple of normalized earnings, that will attract our interest.

Attractive Valuation	<ul style="list-style-type: none"> ▪ Distinct discount to intrinsic value ▪ Low expectations ▪ Favorable risk/reward
Sound Financial Condition	<ul style="list-style-type: none"> ▪ Focus on financial flexibility and liquidity ▪ Seek to protect capital in difficult environments ▪ Allow management to pursue value-enhancing initiatives
Attractive Business Economics	<ul style="list-style-type: none"> ▪ Focus on free cash flow and return on capital capabilities ▪ Ability to grow underlying business value ▪ Avoid “value traps”

We seek companies in strong financial condition. Our analysis is holistic in that we look at on- and off-balance sheet items. Some of those items include interest coverage, debt type, pension liabilities, etc. Quite simply, we do not want the financial condition to impede on the business, meaning we do not want it to interfere with how the business is operated or where management wants to take the business strategically.

When it comes to business quality, our main focus is on analyzing the company's free cash flow capabilities and assessing its ability to earn cost of capital over a full business cycle. Our goal is to have a thorough understanding of how a company operates and its competitive dynamics so that we can properly judge how current controversies are impacting the business.

Time Horizon Inefficiency

Time horizon is an important facet of our investment process. We evaluate opportunities based on a 3-5 year investment time horizon. By extending our time horizon, we aim to take advantage of bargains that result when negative news and nervous investors drive stock prices down. Sentiment can shift dramatically over short periods, but changes in business value typically occur over long time frames. As a result, the difference between the success and failure of an individual investment can often be a function of one's time horizon. Hence, patience is important in exploiting this inefficiency.

Sell Discipline

We monitor each of our holdings closely, evaluating new information relative to our original investment thesis. Our dynamic price ranges are re-evaluated as a company's fundamentals evolve. We begin to trim a position when its stock enters our target selling range and we will exit that position entirely as it reaches the top end of our range. A decline in financial condition or a material change in business economics will also cause us to sell a stock. We aim to manage fully invested portfolios, so if we have a better idea, we will sell a stock to fund that opportunity.

Conclusion

Our process aims to take advantage of market inefficiencies. To repeat our earlier line, we seek cash-producing businesses in strong financial condition that are selling at undemanding valuations. More to the point, we want to stack the odds in our favor by buying cash flows as cheaply and safely as possible.

Portfolio Construction

In building each of the portfolios, position sizes are determined based on how well each company fits our three margin of safety criteria. For example, if a company clears each hurdle easily, it will be at the top end of the portfolio in terms of position size. If a potential investment meets all three criteria but is relatively weaker in one of the criteria, it will be a smaller position within the portfolio. This portfolio construction method provides a risk/reward framework for the portfolio.

Artisan Value Equity Strategy

- Typically 30-40 holdings
- Maximum position size generally 5%¹
- Position sizes determined in part by how well a company meets the team's margin of safety criteria
- Attention to economic exposure
- Typically less than 15% cash

Artisan U.S. Mid-Cap Value Strategy

- Typically 40-60 holdings
- Maximum position size generally 5%¹
- Position sizes determined in part by how well a company meets the team's margin of safety criteria
- Attention to economic exposure
- Market capitalization range generally within that of the Russell Midcap® Index²
- Typically less than 10% cash

Artisan Value Income Strategy

- Typically 50-70 holdings
- Maximum of 30% in Non-US companies¹
- Maximum of 25% in any one industry¹
- All market capitalization orientation¹

Based on a model portfolio. ¹Limitations apply at the time of purchase. ²Market capitalization range determined as of the most recent calendar year end.

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. 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.

Price-to-Book Ratio is a valuation measure used to compare a stock's market value to its book value. **Price-to-Cash Flow** is a measure of the market's expectations of a firm's future financial wealth. **Free Cash Flow** is a measure of financial performance calculated as operating cash flow minus capital expenditures. **Margin of Safety**, a concept developed by Benjamin Graham, is the difference between the market price and the estimated intrinsic value of a business. A large margin of safety may help guard against permanent capital loss and improve the probability of capital appreciation. Margin of safety does not prevent market loss—all investments contain risk and may lose value. **Return on Capital (ROC)** is a measure of how effectively a company uses the money (borrowed or owned) invested in its operations. **Price-to-Earnings (P/E)** is a valuation ratio of a company's current share price compared to its per-share earnings. **Normalized Earnings** are earnings that are adjusted for the cyclical ups and downs over a business cycle.

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