



Artisan Select Equity Fund

QUARTERLY
Commentary

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

As of 30 June 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 30 June 2025	Average Annual Total Returns						
	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception
Investor Class: ARTNX	6.77	12.96	18.33	18.65	15.25	—	12.79
Advisor Class: APDNX	6.76	13.00	18.41	18.77	15.36	—	12.89
Institutional Class: APHNX	6.80	13.02	18.53	18.84	15.40	—	12.95
S&P 500® Index	10.94	6.20	15.16	19.71	16.64	—	16.71

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 2025 ^{1,2,3}	2.97/1.25	3.70/1.15	1.11/1.10
Prospectus 30 Sep 2024 ^{2,3}	3.13/1.26	3.84/1.16	1.19/1.11

¹Unaudited, annualized for the six-month period. ²Net expenses reflect a contractual expense limitation agreement in effect through 31 Jan 2026. ³See 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.



"The world only makes sense if you force it to."
—Batman, "The Dark Knight Returns"

So much for the "Liberation Day" tariffs causing inflation, economic pain and a bear market. The stock market is now HIGHER and interest rate expectations are LOWER than when the tariffs were announced. Does it make any sense that things look better after a large tariff tax was levied on the global economy? The collective wisdom of stock and bond markets appears to be an emphatic YES. How else to explain the 27X trailing earnings multiple on the S&P 500® Index?

Highly valued technology stocks, which led the brief post-tariff selloff, led the recovery. Nine of the 10 best performing stocks in the S&P 500® Index were technology names. Crypto boomed with the Bitwise Crypto Index up 31%. Shares of loss-making companies also did quite well: 10 of the 14 stocks in the Russell 3000® Index that tripled since early April don't generate any profits. Steadier businesses, on the other hand, did poorly in general. Five of the index's worst performers were health care-related names. Risk, as they say, is clearly on.

Looking at the micro, the stock market exuberance seems a bit misplaced. Sifting through company statements from the March-ended quarter (right before tariffs went into effect) paints a mixed picture. Some companies, such as Nike, have quantified the negative impact of tariffs—a \$1 billion hit to profits. That's about 2% of revenue for a company that has historically earned an 8%–16% operating margin. Nike's results, incidentally, were pretty terrible, though the stock rose after they were released. Other companies, such as Mattel, Ford, UPS and FedEx, have pulled guidance, stating that the environment is too uncertain to make financial predictions.

But if you look at the broader macro indicators, the market's Goldilocks narrative is not entirely irrational. Economic growth seems to be continuing along at its pre-Liberation Day pace. The latest reading from May shows only a 10bps increase in month-over-month consumer price index (CPI), headline as well as core. June estimates call for similar month-over-month gains. Payroll numbers in the US don't show much disturbance yet, either. The US Bureau of Labor Statistics released the June jobs report on July 3, and the non-farm payroll gain of 147,000 was in line with the average monthly gains we have seen over the past year. The unemployment rate was about the same as in May. Notably, however, almost all the gains came from education, health care and government, in other words, public sector funded jobs. This continues a disturbing trend of the past few years.

The tariffs haven't caused a lot of pain, most likely because, well, they keep getting reduced and delayed. We are nowhere near the original tariff rates that were released on April 2. We can't keep up with all the changes. Tariff rates on China went up as high as 145% and then reduced to 54%, but the permanent rates have yet to be established. Tariff rates on most other countries have been paused for 90 days and remain at 10%, though the 90-day pause ends July 9—unless the rates are deferred again or renegotiated. All the changes, deferrals and reductions, of course, signal to most observers that the ultimate rates will be nowhere near the rates proposed on Liberation Day in April. But so far, only two trade deals have been announced, and they are with the UK and Vietnam. They appear to us as preliminary agreements with a lot of details not yet worked out. This leaves 98 other trade deals to reach.

There appears to be a fair bit of "mitigation" going on as well. Chinese imports to the US were down 40% in May as a result of the tariffs. But China's overall exports grew 5% during that period. Clearly, Chinese exports are being rerouted from the US-China trade lane to other trade lanes and then into the US. Moreover, shipping rates in some

cases have collapsed, offsetting somewhat the inflationary impact of tariffs. Like the economy, the global trade system is a dynamic and complex ecosystem that is hard to forecast.

That said, if the tariffs persist somewhere near the current levels (a big "if"), we would expect the impact to show up in the broader CPI data eventually. It's not surprising that we haven't seen much impact yet. We believe the mechanics of calculating CPI make it a flawed and inherently lagging indicator. It's not unusual for it to take two to three months for changes in input costs to be fully reflected in the inflation data.

Few modern examples exist to offer guidance on the potential impact of tariffs. One of the best recent case studies we found is a National Bureau of Economic Research study of the 20% tariffs implemented on washing machines in 2018. In that example, most of the tariffs were eventually passed through to consumers over the subsequent four to eight months. This means we are unlikely to see the impact on the official CPI data before early August.

What we do know for certain is that real dollars are being paid. The US government is currently collecting about \$20 billion to \$30 billion of tariff revenue per month. Although it's not yet reflected in the CPI, this increase in tariff revenues implies an increase in the nominal Personal Consumption Expenditures (PCE) of 1.1%. The Congressional Budget Office just scored government tariff revenue at \$2.8 trillion over the next 10 years, based on current tariff rates in place—a projection that is almost certainly wrong, as is any 10-year forecast. But \$280 billion a year of tariffs is not insignificant, though it is only about one-quarter of the estimated tariff revenue based on the original Liberation Day tariff rates.

At the end of the day, the key question on our minds is how all of this will impact corporate earnings. The annual earnings of companies in the S&P 500® Index is about \$2 trillion, which helps put the \$280 billion tariff revenue run-rate in context. Again, this is not insignificant. Clearly, the S&P 500® Index does not comprise the entire corporate profit base of the country, but those constituents are a large part of it. And we don't have a full picture of how these tariff payments are impacting corporate profits because most companies have not yet reported earnings that included May and June, the first two months of tariff implementation. But we will have this information over the next couple of weeks as companies report their Q2 results.

Like Batman, we will continue to stay up at night trying to make sense of it all.

Portfolio Discussion

Our top-performing stocks this quarter were Heidelberg Materials, Meta and Aramark.

We have written frequently about Heidelberg over the past several quarters because the stock has been a strong performer. We don't have a lot to add to what we have previously written. The valuation was extremely depressed when we purchased our position. Knowing exactly why a stock is so cheap is difficult, but it appeared that European investors just didn't want to own a business that emitted a lot of CO2. We have had plenty of meetings with prospective clients who said they couldn't invest with us because our portfolio holdings emitted too much CO2, with Heidelberg being the main culprit. As illusions of a carbon-free world have receded recently, investors' views have changed, and Heidelberg has rerated. The company has generated good operating results during our holding period and

continues to do so. Recently released investor day financial targets look sensible and achievable to us. European construction markets seem to be bouncing along the bottom and could return to growth, as could some of Heidelberg's emerging markets exposures. The recently passed infrastructure bill in Germany may provide a nice tailwind, as could an end to the war in Ukraine. The US business is doing well. The balance sheet is in good shape. It is returning cash to shareholders. The valuation is clearly not as cheap as when we bought it, but it is not expensive at 14X earnings.

Meta's shares rose alongside the other technology stocks during the quarter. The business continues to perform well. User engagement is strong. Revenues are growing in the mid-teens, and profits are growing faster. The company is investing heavily in artificial intelligence (AI), and we believe it is well positioned to benefit from the technology advances. AI has the potential to improve monetization and user engagement in its social media platforms, as well as create new businesses for it across messaging apps, AI chatbots and AR/VR devices. The investments are massive, but so is the opportunity. The 28% increase in share price during the quarter pushed its P/E valuation to around 29X, so clearly a good amount of this optimism is shared by the market and reflected in the share price.

Aramark's shares rose 22% in the quarter. The company reported strong Q2 results, and its business continues to develop nicely. Aramark is one of the three largest contract caterers in the world. Contract catering is an attractive business with good growth prospects as institutions continue to outsource more and more of their onsite food service functions to scale operators such as Aramark. The outsourcing trend should continue as scale operators are able to provide a superior service at a lower cost than self-operators. Year to date, Aramark's revenue has grown 9%, client retention remains very strong, and new business continues to roll in. The stock has appreciated significantly since our purchase, and the valuation is no longer compelling, though we believe that the business will continue to grow value per share at an attractive rate.

Our worst performers were Elevance, Berkshire Hathaway and Axalta.

Elevance has had a tough few quarters, and it hasn't gotten much better so far in Q3 of this year. Elevance's share price came under pressure starting in September of last year. We believe its Medicaid business is to blame—we had estimated it to be ~15% of normalized profits, but it dropped to 5% of profits last year. An unprecedented amount of upheaval has hit Medicaid over the past few years. During COVID-19, the government suspended reverification—the process of verifying program eligibility. Over the course of three years without reverification, national Medicaid membership swelled 32% to a peak of 95 million enrollees in early 2023. As COVID-19 wound down, reverification resumed, which caused a 17% decline in the number of enrollees. This type of enrollment volatility is extreme and unusual. Many of those who churned off the program were healthy and, therefore, high margin, while those that remained were less healthy and used more care, generating higher costs. This squeezed Elevance's Medicaid margins to levels well below normal. It is important to understand, however, that each state sponsors its own Medicaid program and is required to pay providers (e.g., Elevance) premiums that reflect the costs of ensuring beneficiaries. Those

premium rates are currently being renegotiated higher on a state-by-state basis, and we expect the margin gap to narrow as we move through 2025 and 2026. We view a Medicaid margin normalization as inevitable.

A more recent related development compounded investors' concerns about Elevance. After the close of Q2, another provider, Centene, issued a large profit warning related to its Affordable Care Act (ACA) marketplace business. We do not have full clarity as Centene has not yet reported full results, but it appears this warning is related to an unusual change in the ACA member base. During the Biden administration, new laws (first the American Rescue Plan Act, followed by the Inflation Reduction Act) expanded and enhanced marketplace subsidies. This included fully subsidized plans with \$0 premiums for people in certain income brackets. The appeal of these new zero-premium plans was particularly high in states that have tighter Medicaid eligibility standards, such as Texas and Florida. Perversely, in those states, a resident can earn income too high to qualify for Medicaid and too low to be eligible for ACA marketplace plans. This seems to have resulted in brokers and enrollees overstating income to qualify for zero-premium health insurance, which drove rapid enrollment growth. The Centers for Medicare & Medicaid Services (CMS) has begun to crack down on brokers and income verification, which has resulted in declining ACA marketplace enrollment, particularly in this subsegment. Similar to the dynamics in Medicaid, the disenrolled marketplace members seem to have been higher margin, which has resulted in lower margins for the remaining business.

Elevance reports soon, and we will learn to what extent these trends have impacted its ACA business. Our research suggests that within the marketplace business, Centene has a much higher exposure than Elevance to the states with the greatest incentives to overstate income. Moreover, we estimate that the ACA marketplace business is only 7% of Elevance's total profit mix versus 40% at Centene.

We note that last year, analysts projected Elevance would earn about \$39 a share in 2025. Today, those estimates are around \$34 a share, and the stock trades for about 10X–11X those lowered estimates. We believe that Elevance's earnings power has not been impaired, only deferred.

Berkshire Hathaway's share price declined 9%. We suspect this was largely due to Warren Buffett's announcement that he is stepping down as CEO. The CEO transition to Buffett's lieutenant, Greg Abel, has been widely telegraphed, though the date was never certain. Now it is. We have a number of thoughts around this transition. Buffett and Abel are in many respects a study in contrasts. Abel is a great operator of businesses. Buffett is a great stock picker and capital allocator, but not an operator. In our view, the future of Berkshire will now likely turn more on the value that can be created from operations first and capital allocation second. Abel may improve the operating performance of the businesses due to a greater level of internal scrutiny and focus.

Given the enormous amount of liquidity that Berkshire has and will continue to generate from the free cash flow of its businesses, we

suspect cash returns to shareholders will be a greater share of total return than in the past. Simply put, Abel and his team are unlikely to do as many deals and/or invest as much in public equities as Buffett has because he was just better at this aspect of the enterprise. We also believe that over time, Berkshire will become more like a regular public company. Currently, Berkshire does zero investor relations. Its reporting and disclosure are the absolute minimum required by law. Buffett was able to operate like this because he earned and deserved a level of trust never before seen in the public markets. We have an enormous amount of respect for Abel, but he is unlikely to have the same kind of following, nor should he be expected to. As a result, disclosure and investor engagement are likely to increase, perhaps not in the near term, but likely in the medium to long term. Looking far into the future, will the high quality but unrelated nature of the assets under the Berkshire umbrella persist in their current form? This question will at some point likely impact Berkshire's valuation.

Axalta shares declined 10%. Q1 earnings were fine, in our opinion. Sales declined 2% overall. In the performance coatings division, which is Axalta's best business, sales were impacted by general market weakness. Insurance premiums have gone up significantly over the last few years. So have repair costs. And the car park continues to age. It appears that individuals are pocketing the insurance proceeds when their car is damaged rather than getting an old car repainted. A general lack of consumer confidence doesn't help either. Industrial sales are also weakish as a result of sluggish industrial activity. This has been a trend for Axalta for a while. The mobility business saw a slight decline in revenue due to declines in original equipment manufacturer (OEM) vehicle production. Notably, however, Axalta grew profits despite the anemic top-line performance. This is a function of variable cost declines and good expense management. Axalta sells for a modest 11X earnings multiple versus the S&P 500® Index at more than 20X, and we added to our position during the quarter.

We added IQVIA (IQV) to the portfolio this quarter. IQV is the leader in the contract research organization (CRO) industry. CROs conduct clinical trials for large pharmaceutical and biotechnology companies. Because of their scale and global operations, large CROs such as IQV can run clinical trials cheaper, faster and better than their clients can do themselves. This explains why CROs have been taking share from pharmaceutical companies' internally run clinical trials for decades. Clinical trial outsourcing penetration 15 years ago was around 30% but is now more than 50%. Industry observers project it could eventually reach 70% or more as the pharmaceutical industry continues to manage its fixed cost base. Finding participants for clinical trials, running the trials and navigating the regulatory landscape is complex, expensive and time consuming. IQV has about a 22% share of the CRO industry, followed by ICON and PPD (a unit of Thermo Fisher), which each have 20%. The rest of the industry is fragmented across multiple players.

The financial characteristics of the industry are highly attractive. The need for and benefits of pharmaceutical innovation generally result in rising R&D spend and demand for clinical trials. The outsourcing trend adds another layer of growth on top. A fragmented industry also creates the opportunity for small and medium-sized acquisitions, which we assess to be generally value creating in this industry. A

decade ago, IQV generated about \$700 million in EBITA. Today, it is around \$3 billion. Five years ago, the company earned under \$6 a share in EPS, and we expect that it will earn about \$11 a share this year. In short, this has been and we expect will continue to be a growing business. Return on equity this year should be around 30%, consistent with the past several years.

The share price has been weak, and the valuation has compressed significantly. A couple of issues have slowed industry and IQV growth recently. Industry R&D spend stepped up during COVID-19, primarily related to vaccine development, and IQV benefited. Those COVID-era revenues have been bleeding off. COVID-related revenues peaked at 16% in Q2 2021 and came down 1% or less by 2024. In addition, biotech funding has slowed down, which has dragged on the growth rate of biotech clinical trials. And then finally, the pharmaceutical industry in general is facing a large patent expiration cliff. It is estimated that \$180 billion of revenue will go off patent in 2027/2028. The uncertainty around how this will impact R&D spend is a concern for investors.

We view all of the issues as transitory. The industry has faced biotech funding volatility and patent cliffs in the past, and it has emerged larger on the other side. The slowdown and uncertainty have derated the stock from nearly 30X earnings to about 12X at our purchase. Interestingly, we still expect IQV to grow revenue and EPS in 2025 and 2026 despite current headwinds.

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