



# Artisan Small Cap Fund

## QUARTERLY Commentary

Investor Class: ARTSX | Advisor Class: APDSX | Institutional Class: APHSX

As of 30 June 2025

### Investment Process

We seek to invest in companies that possess franchise characteristics, are benefiting from an accelerating profit cycle and are trading at a discount to our estimate of private market value. Our investment process focuses on two distinct elements—security selection and capital allocation. We overlay our investment process with broad knowledge of the global economy.

#### Security Selection

We seek to identify companies that have franchise characteristics (e.g., low-cost production capability, possession of a proprietary asset, dominant market share or a defensible brand name), are benefiting from an accelerating profit cycle and are trading at a discount to our estimate of private market value. We also assess governance and other material sustainability factors that could impact future stock returns. We look for companies that are well positioned for long-term growth, which is driven by demand for their products and services, at an early enough stage in their profit cycle to benefit from the increased cash flows produced by the emerging profit cycle.

#### Capital Allocation

Based on our fundamental analysis of a company's profit cycle, we divide the portfolio into three parts. Garden<sup>SM</sup> investments are small positions in the early part of their profit cycle that may warrant more sizeable allocations as their profit cycle accelerates. Crop<sup>SM</sup> investments are positions that are being increased to a full weight because they are moving through the strongest part of their profit cycles. Harvest<sup>SM</sup> investments are positions that are being reduced as they near our estimates of full valuation or their profit cycles begin to decelerate.

#### Broad Knowledge

We overlay the security selection and capital allocation elements of our investment process with a desire to invest opportunistically across the entire global economy. We seek broad knowledge of the global economy in order to find growth wherever it occurs.

### Team Overview

We believe deep industry expertise, broad investment knowledge, a highly collaborative decision-making process and individual accountability are a powerful combination. Since the inception of the team, we have been committed to building a team of growth investors that retains these attributes and is solely dedicated to our process and approach.

### Portfolio Management



Jay Warner, CFA  
Portfolio Manager (Lead)



Jim Hamel, CFA  
Portfolio Manager



Jason White, CFA  
Portfolio Manager



Matt Kamm, CFA  
Portfolio Manager

### Investment Results (%)

	Average Annual Total Returns						
As of 30 June 2025	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception
Investor Class: ARTSX	7.30	-3.58	5.76	9.86	1.40	8.14	8.81
Advisor Class: APDSX	7.33	-3.51	5.91	10.03	1.54	8.26	8.85
Institutional Class: APHSX	7.36	-3.45	6.00	10.12	1.63	8.38	8.91
Russell 2000® Growth Index	11.97	-0.48	9.73	12.38	7.42	7.14	7.62
Russell 2000® Index	8.50	-1.79	7.68	10.00	10.04	7.12	8.73

Source: Artisan Partners/Russell. Returns for periods less than one year are not annualized. Class inception: Investor (28 March 1995); Advisor (1 February 2017); Institutional (7 May 2012). For the period prior to inception, each of Advisor Class and Institutional Class's performance is the Investor Class's return for that period ("Linked Performance"). Linked Performance has not been restated to reflect expenses of the Advisor or Institutional Class and each share's respective returns during that period would be different if such expenses were reflected.

Expense Ratios	ARTSX	APDSX	APHSX
Semi-Annual Report 31 Mar 2025 <sup>1</sup>	1.24	1.10	1.01
Prospectus 30 Sep 2024 <sup>2</sup>	1.23	1.09	1.00

<sup>1</sup>Unaudited, annualized for the six-month period. <sup>2</sup>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.



### Investing Environment

Global markets turned in an impressive but volatile Q2, swinging from double-digit declines to double-digit gains. Equities plunged after President Donald Trump's April 2—"Liberation Day"—announcement of sweeping tariffs on US trading partners. The US and China then escalated their trade war by issuing a series of reciprocal tariffs against each other. The moves triggered a roughly 12% drop in the Russell 1000® Index and intense volatility.

In a swift reverse course of action, however, President Trump suspended tariff hikes on April 9 and initiated a 90-day pause, setting the stage for a tentative agreement with Beijing in May to reduce the reciprocal tariffs. The announcement sparked a strong rebound, with US equities clawing back April losses and surging into the start of summer.

Growth stocks led the charge, driven by US technology mega-caps, while value stocks saw smaller—but still positive—returns. The de-escalation of the trade dispute, alongside robust corporate earnings, sent indices to record highs by quarter-end with the Russell 1000® Index rallying approximately 11% and the Nasdaq Composite Index finishing up nearly 18% for the quarter. Outside the US, small- and mid-cap stocks fared better than large caps, and emerging markets extended their outperformance against developed markets.

Bond markets saw equally sharp moves. US Treasury yields plunged as investors flocked to safe-haven assets in April. The 10-year US Treasury yield dropped below 4.0%, then surged toward 4.6% in May and ended near 4.2% as recovery momentum took hold. Central banks also remained in focus during Q2. The Fed held its benchmark rate at 4.25% to 4.50% at its June policy meeting, citing persistent inflation and trade uncertainty. While Chair Jerome Powell acknowledged that tariffs complicated the outlook, the Fed flagged potential rate cuts later in 2025.

Meanwhile, the ECB took a different path: cutting its deposit rate by 25bps in both April and June—bringing it down to 2%—after euro zone inflation cooled to target levels. Despite the divergence in central bank policy paths, the US dollar continued to depreciate against the euro and other major currencies.

Geopolitical tensions in the Middle East added further volatility. In June, Israel bombed Iran, and the US quickly followed up by bombing three Iranian nuclear facilities. The conflict triggered a short-lived spike in risk aversion as a tentative ceasefire was reached. Markets quickly resumed their upward trajectory.

### Exhibit 1: Index Returns

	Q2 2025
Russell 1000® Index	11.1%
Russell 1000® Growth Index	17.8%
Russell 1000® Value Index	3.8%
Russell Midcap® Index	8.5%
Russell Midcap® Growth Index	18.2%
Russell Midcap® Value Index	5.4%
Russell 2000® Index	8.5%
Russell 2000® Growth Index	12.0%
Russell 2000® Value Index	5.0%
MSCI EAFE Index	5.1%
MSCI AC World Small Mid Cap Index	9.2%
MSCI EM Index	8.1%
MSCI ACWI	9.5%

Source: Artisan Partners/FactSet/MSCI/Russell. As of 30 Jun 2025. **Past performance does not guarantee and is not a reliable indicator of future results.** An investment cannot be made directly in an index.

### Performance Discussion

Following a down market in Q1 2025, where our focus on franchise quality and valuation helped provide downside protection and drive relative outperformance versus the Russell 2000® Growth Index, Q2 saw a sharp reversal. A fast moving, risk-on rally favoring lower quality, speculative stocks—particularly those with SPAC origins, extreme levels of short interest, volatile business models, recent IPOs and negative cash flows—drove the index up 11.97% versus our portfolio's 7.30% gain. Meanwhile, high-quality companies—those with strong fundamentals, such as consistent cash flow, low leverage, high ROIC/ROE and active share repurchase programs—underperformed. These dynamics, while unfavorable to our approach, were consistent with our expectations given the market's narrow, speculative leadership. Our focus remains on owning high-quality businesses at attractive valuations with compelling profit cycles, which we believe will drive long-term compounding and protect capital in more challenging markets.

Among our top Q2 contributors were Flex, MACOM and iRhythm. Flex provides outsourced electronic manufacturing services to a diverse set of end markets. The company hired a new CEO in 2020, who has been driving a strategic pivot toward manufacturing high-growth, low-volume and high-value products in areas such as health care, industrial, automotive and cloud infrastructure. Today, these higher value items account for ~60% of revenues and continue to tick higher. We believe moving away from more cyclical consumer electronics

markets toward secular growth areas, such as electric vehicles and medical devices, along with the nearshoring of supply chains, will lead to faster growth and higher margins. At the beginning of the quarter, there were concerns about a potential slowdown in the industrial economy and its implications for Flex's profit cycle. However, when the company reported its Q4 2024 earnings, it became evident that overall demand remained strong. While some end markets showed signs of weakness, these were more than offset by strength in other areas. Additionally, Flex noted increased interest from both existing and new customers regarding available capacity, as businesses work to become nimbler in an increasingly uncertain tariff environment.

MACOM designs and manufactures high-performance semiconductors. The company has been taking steps to accelerate top-line growth and expand margins by addressing smaller, long-duration product cycle markets in which it can provide a differentiated offering, especially in compound semis (those made from two or more elements). Demand remains strong across MACOM's key end markets, including US and European defense, data center and even telecom—spanning both long-haul and satellite segments. Moreover, MACOM's above-average semiconductor production footprint within the US likely reduces its exposure to potential industrywide disruptions related to any potential tariff risks.

iRhythm develops and markets the Zio, a wearable patch that monitors irregular heartbeats. We believe its advanced technology is well positioned for broad adoption as doctors and insurers push for earlier detection of atrial fibrillation to prevent strokes. Shares climbed after strong earnings, with 20% revenue growth and gross margins rising to 69% thanks to scaling and efficiency gains. Management also raised its forward guidance.

Among our detractors in Q2 were Halozyme, Clearwater Analytics and Lattice Semiconductor. Halozyme provides a unique technology platform (ENHANZE®) that converts biologics and small molecule drugs administered intravenously into a subcutaneous formulation. The company reported strong earnings and raised its full-year guidance in May, but shares were negatively impacted by uncertainty surrounding new draft guidance from the Centers for Medicare and Medicaid Services (CMS) on drug pricing and potential delays in launching new products. We trimmed our position as we await final guidance from CMS.

Clearwater provides automated investment accounting, compliance and risk reporting for insurance companies, corporations and asset managers. Its key differentiator is a master security identifier list that consolidates data from multiple sources, driving best-in-class accuracy, integration, reporting and analytics. Clearwater's cloud-based software streamlines investment accounting, freeing clients to focus on higher value activities such as asset allocation and investment selection. We moved Clearwater back into the Garden<sup>SM</sup> from the Crop<sup>SM</sup> given its decision to significantly expand the size and scope of its M&A strategy. As a public company, Clearwater has yet to demonstrate the ability to successfully acquire and integrate larger

scale M&A transactions. Therefore, we need to see evidence of success before considering a return to a Crop<sup>SM</sup> capital campaign.

Lattice Semiconductor, a fabless manufacturer of field-programmable gate array chips, has faced share pressure in line with broader semiconductor sector concerns over tariffs and macroeconomic uncertainty. In addition, recent results confirmed the company continues to ship products at a slower rate than true demand, as customers work down excess inventory. We believe Lattice is positioned to return to strong growth, driven by consistent new product launches and ongoing market share gains.

### Portfolio Activity

Notable buys in the quarter included BWX Technologies, Wingstop and Madrigal Pharmaceuticals. BWX Technologies designs and manufactures nuclear reactor vessels and components for the US Navy and commercial markets. It has the only Nuclear Regulatory Commission Category 1-licensed facilities permitted to handle, store and process highly enriched uranium in the US. This exclusivity gives it a dominant position across both business segments. It maintains a monopoly on nuclear reactors and fuel for US submarines and aircraft carriers, and it offers a differentiated portfolio of heavy nuclear components. The build schedule for US Navy submarines and aircraft carriers provides long-term visible growth, which we expect to be enhanced by upcoming investments by Canada into refurbishing, expanding and building nuclear power plants. In addition, the Trump administration's stated desire to accelerate US nuclear energy development could become a catalyst for growth.

Wingstop, a quick-service restaurant franchisor specializing in fresh, made-to-order chicken wings, sandwiches and sides, is a stock we have owned before and harvested due to our valuation discipline. It is in the early stages of expanding both domestically and internationally, supported by favorable franchisee economics and growing brand awareness. After a few consecutive quarters of same-store sales missing heightened expectations, the stock was overly punished. This created a compelling opportunity for us to reinvest in a highly unique franchise with a solid long-term profit cycle growth profile, not only from domestic and international restaurant openings but also from menu innovation, national branding, partnerships with delivery providers and a value-focused bundling strategy that continues to resonate with customers.

Madrigal Pharmaceuticals is a commercial-stage biotechnology company focused on treating metabolic dysfunction-associated steatohepatitis (MASH), a serious liver disease with high unmet medical need. Madrigal's lead drug, Rezdiffra<sup>TM</sup>, is the first and only FDA-approved medication to target liver fibrosis, demonstrating high efficacy with minimal side effects. Given the significant failure rates of previous treatments for this condition, we are confident in the company's ability to maintain a competitive edge and further differentiate itself in the market. Additionally, there is potential to expand its application to more advanced stages of liver fibrosis.

Notable adds in the quarter included Birkenstock, ServiceTitan and Stevanato. Birkenstock is a heritage casual footwear brand known for its portfolio of primarily open-toe and open-heel products. It operates a hybrid distribution model across both wholesale and direct-to-consumer channels and executes a supply-constrained strategy that drives high levels of full-price sell-through. This disciplined approach has historically supported measured and sustainable growth. We believe the brand's enduring franchise value and supply-led model position it well for steady unit expansion and rising average selling prices—together driving attractive long-term revenue growth. We initiated a Garden<sup>SM</sup> position in Birkenstock toward the end of Q1 2025, as the stock weakened in anticipation of potential tariff impacts and an increasingly uncertain consumer spending environment. We continued to build our position during the "Liberation Day" selloff, as we believe there is a durable set of company-specific profit cycle drivers, including product cycle innovation, increasing geographic distribution and a time- and cyclical-tested brand.

ServiceTitan is the leading vertical software provider for the trades (e.g., plumbing, HVAC, electrical), an area that has historically been underserved by technology. The company is focused on residential and commercial services that manage the full workflow—from lead generation to payment. Revenue comes from subscriptions and usage-based payment processing. We see multiple opportunities for growth, including acquiring new customers, upselling existing customers and expanding into more trades. ServiceTitan has been delivering in line with our thesis, particularly during its initial quarters as a public company amid a highly uncertain market environment. We took advantage of stock weakness following a secondary issuance after the IPO lockup to increase our position from the Garden<sup>SM</sup> to the Crop<sup>SM</sup>.

Stevanato is a leading provider of specialty glass and plastic packaging to the health care industry, as well as the leading machinery supplier to glass vial makers and fill and finish facilities. We believe a mix shift from bulk products to higher margin sterilized products and the overall growth of biologic drugs will drive attractive earnings growth. We increased our position as we gained greater confidence that the worst of the COVID-related inventory overstocking challenges had passed. Moving forward, we believe the company's and industry's profit cycle drivers are more likely to demonstrate the durable growth characteristics that originally attracted us to this stock.

We ended our investment campaigns in Saia, Freshworks and Iovance during the quarter. Saia operates in the less-than-truckload (LTL) shipping sector, a structurally attractive part of transportation with strong franchise characteristics backed by real estate and network advantages. While we have been positive on Saia's strategic network expansion, we reduced our position in Q1 in anticipation of rising tariffs hurting industry volume growth—a risk that materialized in Saia's recent earnings. We subsequently exited our position due to a lack of conviction in the company's ability to deliver a profit cycle as it continues to invest in capacity expansion, while at the same time

facing top-line pressure. Additionally, Saia appears to be compromising on price to drive growth.

Freshworks is a cloud-based software company that provides solutions to enhance customer and employee experiences across various business functions. We initiated a Garden<sup>SM</sup> campaign at the end of 2024 based on the thesis that Freshworks would successfully move upmarket, capturing business from ServiceNow, and that the company would benefit from artificial intelligence (AI) trends, particularly given its customer service chatbot product, which had been successfully monetized for several quarters. We ended the campaign this quarter due to concerns regarding how effectively Freshworks could transition from a seat-based to an enterprise-based pricing model given AI's potential to improve the performance of its customers while also enabling those customers to reduce employment levels.

Iovance Biotherapeutics is a biotechnology company focused on innovating, developing and delivering novel polyclonal tumor-infiltrating lymphocyte (TIL) cell therapies for cancer patients. Our Garden<sup>SM</sup> capital campaign in Iovance was progressing well—the company advanced from drug development to approval to commercialization of a first-to-market therapy for late-stage melanoma, where no other life-saving treatments exist. While we remain encouraged by the drug's efficacy and first-to-market therapy, we exited the position due to operational challenges that led to concerns regarding Iovance's capital structure.

Along with Halozyne and Clearwater Analytics, we also trimmed Guidewire during the quarter. Guidewire is a market leader in next-generation property and casualty (P&C) insurance software. A few years ago, Guidewire transitioned from a licensed software business model to a subscription-based cloud service. Historically, as companies emerge from these (often messy) transitions, their profit growth tends to accelerate. We believe Guidewire is at this inflection point. The company has consistently performed in line with our thesis, driving a durable and compelling profit cycle. While we remain optimistic about Guidewire's growth prospects, we have been reducing our position due to the company's increasing market capitalization, which is approaching the upper limits of our small-cap mandate.

### Perspective

Let's quickly recount some of this quarter's major events. On April 2, or "Liberation Day," President Donald Trump unveiled a sweeping set of tariffs on all US trade partners and subsequently escalated trade tensions with China by pushing up tariffs on imported goods from the country to 145%. Then in June, Israel and the US bombed Iran in an effort to destroy its nuclear program. Throughout the quarter, President Trump upped his public criticism of Federal Reserve Chairman Jerome Powell for not cutting interest rates yet, a campaign viewed as potentially threatening the Fed's independence. And the US dollar continued to weaken, posting the largest first-half decline

since 1973. As a result, the S&P 500® Index experienced extraordinary intra-quarter volatility.

If you didn't already know how equity markets fared, what odds would you have placed on major US indices registering double-digit gains in Q2? The odds would have seemed fairly low.

What's more, amid such a quarter, we would have expected more defensive areas to be the relative leaders, but as we stated previously it was the complete opposite that led the recovery, which is stocks that contained lower quality attributes.

Our investment process insists that companies meet several requirements: franchise characteristics, an attractive valuation and an interesting profit cycle. We won't compromise on those principles because they've led us to be right more often than wrong. And we believe our long-term track record of absolute and relative results support our conviction.

Experience has also taught us that geopolitical, economic or policy-induced market volatility can present valuable opportunities. As has been the case in the past, we used the wild market downturn early in Q2 to further upgrade the portfolio into our highest conviction ideas at more attractive valuations. These holdings generally possess strong company-specific catalysts that should help drive profit growth through periods of economic weakness.

While we expect continued policy and market volatility in the periods ahead (after all, we've yet to see the full effect of a new tariff regime on the economy), we believe our portfolio is well positioned to deliver strong profit growth in the years ahead. Within technology, we own franchises that stand to benefit materially from the adoption of AI tools within business and government, such as Guidewire, Intapp and Procore Technologies. We also own infrastructure leaders such as MACOM, Modine and Astera Labs that are helping to make the data centers powering these AI tools faster and more power efficient.

And finally, we continue to see significant upside potential longer term in our health care holdings. The health care investment environment is complicated today given the policy and regulatory disruption underway in Washington, D.C. However, we expect our biotech franchises (Ascendis, Insmed and Twist Bioscience) to be some of the fastest growing companies in the portfolio in the coming years, driven by the rapid adoption of their novel therapies. And within medical devices, we see compelling catalysts ahead for iRhythm, Penumbra and PROCEPT BioRobotics®—all of which provide breakthrough technologies to help physicians and patients diagnose and treat serious diseases.

Amid the uncertainty and volatility, we remain committed to our process and will keep looking beyond the short-term market gyrations. We've been rewarded for this approach in the past and believe we have a portfolio of high-quality franchises that will drive strong absolute and relative results in the future.

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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.

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 governance and other material sustainability 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 these sustainability factors. 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. Growth securities may underperform other asset types during a given period.

Russell 2000® Growth Index measures the performance of US small-cap companies with higher price/book ratios and forecasted growth values. Russell 2000® Value Index measures the performance of US small-cap companies with lower price/book ratios and forecasted growth values. Russell 1000® Value Index measures the performance of US large-cap companies with lower price/book ratios and forecasted growth values. Russell 1000® Growth Index measures the performance of US large-cap companies with higher price/book ratios and forecasted growth values. Russell Midcap® Index measures the performance of roughly 800 US mid-cap companies. Russell Midcap® Growth Index measures the performance of US mid-cap companies with higher price/book ratios and forecasted growth values. Russell Midcap® Value Index measures the performance of US mid-cap companies with lower price/book ratios and forecasted growth values. 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 All Country World Small Mid Index measures the performance of small- and mid-cap companies in developed and emerging markets. MSCI EAFE Index measures the performance of developed markets, excluding the US and Canada. MSCI Emerging Markets Index measures the performance of emerging markets. Nasdaq Composite Index measures all Nasdaq domestic and international based common type stocks listed on The Nasdaq Stock Market (Nasdaq). This index is ordinarily calculated without regard to cash dividends of the index securities. Oversight responsibility for the Index, including methodology, is handled by Nasdaq OMX. 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 2025. Those views may change, and the Fund disclaims any obligation to advise investors of such changes. For the purpose of determining the Funds' holdings, securities of the same issuer are aggregated to determine the weight in the Fund. The holdings mentioned above comprise the following percentages of the Artisan Small Cap Fund's total net assets as of 30 Jun 2025: Halozyme Therapeutics Inc 1.5%, Clearwater Analytics Holdings Inc 0.8%, Lattice Semiconductor Corp 2.8%, Flex Ltd 3.7%, MACOM Technology Solutions Holdings Inc 3.9%, iRhythm Technologies Inc 3.0%, BWX Technologies Inc 1.7%, Wingstop Inc 1.5%, Madrigal Pharmaceuticals Inc 0.8%, Birkenstock Holding Plc 1.5%, ServiceTitan Inc 1.5%, Stevanato Group SpA 2.6%, Guidewire Software Inc 4.0%, Intapp Inc 2.4%, Procore Technologies Inc 2.4%, Madine Manufacturing Co 2.2%, Astera Labs Inc 0.9%, Ascendis Pharma A/S 5.8%, Insmid Inc 2.5%, Twist Bioscience Corp 2.5%, Penumbra Inc 1.8%, PROCEPT BioRobotics Corp 1.1%. 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.

Governance and other material sustainability assessments represent one of many pieces of research available and the degree to which it impacts holdings may vary based on manager discretion.

**Contribution to Return (CTR)** represents the contribution of an investment to the total portfolio return. CTR is calculated by multiplying a security's portfolio weight by its in-portfolio return daily for the period and has been derived from a holdings-based methodology, which uses daily positions and pricing rather than intraday transactions. **Attribution** quantifies the relationship between a portfolio's relative returns and the active management decisions differentiating the portfolio from the benchmark. **CTR** and **Attribution** are not exact, nor representative of actual investor returns due to several variables (e.g., fees, expenses, transactions) and therefore should be considered an approximation and examined in conjunction with the performance of the portfolio during the period. If applicable, securities of the same issuer are aggregated and may be delta-adjusted to determine the weight in the portfolio, and aggregation of corporate affiliates is subject to the determination of Artisan Partners. Further information on the methodology used is available upon request.

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**Private Market Value** is an estimate of the value of a company if divisions were each independent and established their own market stock prices. **Return on Equity (ROE)** is a profitability ratio that measures the amount of net income returned as a percentage of shareholders' equity. **Return on Invested Capital (ROIC)** is a measure of how well a company generates cash flow relative to capital invested in the business. **Return on Investment (ROI)** measures the amount of return on an investment relative to the investment's cost.

Our capital allocation process is designed to build position size according to our conviction. Portfolio holdings develop through three stages: Garden<sup>SM</sup>, Crop<sup>SM</sup> and Harvest<sup>SM</sup>. Garden<sup>SM</sup> investments are situations where we believe we are right, but there is not clear evidence that the profit cycle has taken hold, so positions are small. Crop<sup>SM</sup> investments are holdings where we have gained conviction in the company's profit cycle, so positions are larger. Harvest<sup>SM</sup> investments are holdings that have exceeded our estimate of intrinsic value or holdings where there is a deceleration in the company's profit cycle. Harvest<sup>SM</sup> investments are generally being reduced or sold from the portfolios.

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