

Announcing Managers of the Year for 2011

These winners stayed on track in a year of head fakes.

Fund Spy | 01-04-12 | by Karen Dolan, CFA

What a year to be a fund manager. U.S. stocks were up early, plunged in late summer, then rose again, ending 2011 barely above water. Foreign equities, plagued by debt troubles in Europe and concerns over slowing growth in emerging markets (primarily China and India), finished the year deep in the red. The U.S. bond market enjoyed its status as a safe haven with the strength of U.S. government bonds surprising many astute investors who had been concerned about Treasuries' ultralow yields against a backdrop of slow growth and high government debt. Overall, the most successful managers were able to keep perspective by staying focused on deep research within their circles of competency.

As always, some fund managers' styles were in favor, helping elevate them to the top of the performance charts. Yet, our winners' returns cannot solely be explained by a stylistic tailwind. We look for managers who nailed the past year on the heels of much lengthier success, and we measure achievement not only by observing trailing performance but also by reviewing managers' strategies in action over time.

Morningstar presents three awards each year: Domestic-Stock Fund Manager of the Year, International-Stock Fund Manager of the Year, and Fixed-Income Fund Manager of the Year. In early December, fund analysts specializing in those fields narrow the universe for each award to five nominees, and the winner is then selected by Morningstar's entire team of mutual fund analysts. To make the most informed decision, we comb through portfolios, returns, stewardship, and our own institutional memory of these managers as we debate and vote. While the awards have always distinguished the past calendar year, we've never simply chosen the highest-returning funds. We favor managers who have achieved strong risk-adjusted performance through the careful execution of a solid investment strategy and who act as responsible stewards of investors' capital.

This is not an attempt to pick the best manager for the upcoming quarter or year; rather, it recognizes managers' past achievements.

Still, we're confident this year's winners—and past ones—can enjoy continued success in the future because our selection process focuses not only on performance but also on how those returns were achieved.

Domestic-Equity Managers of the Year

Artisan Mid Cap Value ARTQX, **Artisan Value** ARTLX, and **Artisan Small Cap Value** ARTVX

Scott Satterwhite, James Kieffer, and George Sertl shone in 2011 but didn't get off to a running start. Although each of the three funds they manage gained more than 10% in 2010 and continued on an upward trek in early 2011, the market favored companies that were more highly leveraged than what this team prefers and the funds lagged their peers moving into the year. Yet, when the tide turned and risky fare was punished, this team's approach proved resilient. The managers achieved their success in 2011 and have amassed an impressive longer-term record by applying a patient, contrarian approach to companies of all sizes.

The managers prize healthy balance sheets and strong business models, and they look for stocks trading at steep discounts to their estimate of private-market values. That focus was more than a hypothetical exercise in the case of National Semiconductor, held in Artisan Mid Cap Value, which was purchased by Texas Instruments TXN in 2011 at a 78% premium. Many of the team's recent successes, in fact, have come from technology, a sector traditionally more attractive to growth managers. But tech stocks today sport the kind of balance-sheet strength and cash flow characteristics this team likes. While the tech sector in aggregate has been a poor performer, this team has managed to park some real gems in the portfolios—Apple AAPL in Artisan Value, National Semiconductor in Artisan Mid Cap Value, and Manhattan Associates MANH in Artisan Small Cap Value. Success has come from more-traditional value areas, too. Utilities have been a boon for the funds, while keeping a light stake in financials and avoiding banks definitely helped as well.

The managers spread their conviction broadly (although the larger-cap funds sport rather concentrated portfolios); they limit top positions to no more than 5% of assets, relying on most of their picks to do well rather than counting on a few outsized successes. This steady profile has worked in a variety of markets. Artisan Small Cap Value hasn't had a banner year in 2011, but it is in the top quartile for the trailing 10 years, as is Artisan Mid Cap Value (Artisan Value doesn't have a 10-year record), and all three funds have shone over the past five years, which encompasses several sharp market reversals. They've also beaten their respective benchmarks and the majority of their peers with remarkable consistency over rolling three- and five-year periods. That makes good fundholder experiences highly likely.

The management team has also been careful to preserve their ability to outperform by limiting capacity; Artisan Small Cap Value and Artisan Mid Cap Value are both closed to new investors.

The sections for International-Stock Manager of the Year and Fixed-Income Fund Manager of the Year have been omitted for reprint purposes. To view the full article visit www.morningstar.com.

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AVERAGE ANNUAL TOTAL RETURNS (as of 31-Dec-11)

	YTD ¹	1 Yr	3 Yr	5 Yr	10 Yr	Inception	Expense Ratios
Artisan Value Fund (ARTLX)²	5.49%	5.49%	16.75%	0.35%	n/a	2.42%	1.18% ³
Russell 1000 [®] Value Index	0.39%	0.39%	11.55%	-2.64%	n/a	0.07%	
Russell 1000 [®] Index	1.50%	1.50%	14.81%	-0.02%	n/a	1.68%	
Artisan Mid Cap Value Fund (ARTQX)^{4,5}	6.42%	6.42%	19.23%	4.53%	10.57%	10.47%	1.21% ⁶
Russell Midcap [®] Value Index	-1.38%	-1.38%	18.19%	0.04%	7.67%	7.85%	
Russell Midcap [®] Index	-1.55%	-1.55%	20.17%	1.41%	6.99%	7.10%	
Artisan Small Cap Value Fund (ARTVX)^{5,7}	-3.17%	-3.17%	16.92%	2.74%	9.43%	9.90%	1.22% ⁶
Russell 2000 [®] Value Index	-5.50%	-5.50%	12.36%	-1.87%	6.40%	6.50%	
Russell 2000 [®] Index	-4.18%	-4.18%	15.63%	0.15%	5.62%	4.88%	

Source: Artisan Partners/Russell. ¹Returns are not annualized. ²Fund inception 27-Mar-06. ³Artisan Value Fund's operating expenses have been restated to reflect a reduction in management fees, effective as of 1-Dec-10, as if such reduction had been in effect during the fiscal year ended 30-Sep-10. The information has been restated to better reflect anticipated expenses of the Fund. ⁴Fund inception 28-Mar-01. ⁵The Fund is closed to most new investors. Please refer to the prospectus for new account eligibility criteria. ⁶For the fiscal year ended 30-Sep-10. ⁷Fund inception 29-Sep-97.

The performance quoted represents past performance, which does not guarantee future results. The investment return and principal value of an investment in the Fund 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 the performance data quoted. For current to most recent month-end performance information, call 800.344.1770 or visit www.artisanfunds.com.

Investors should consider carefully before investing the Fund's investment objective, risks and charges and expenses. For a prospectus or summary prospectus, which contains that information and other information about the Fund, please call us at 800.344.1770. Please read the prospectus or summary prospectus carefully before you invest or send money.

Artisan Value, Mid Cap Value and Small Cap Value Funds: Value securities may underperform other asset types during a given period. Artisan Value Fund: 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 markets. Artisan Value and Mid Cap Value Funds: Securities of medium-sized companies tend to be more volatile and less liquid than those of large companies, may have underperformed the securities of large companies during some periods and tend to have a shorter history of operations than large companies. Artisan Small Cap Value Fund: Securities of smaller companies tend to be more volatile and less liquid than those of large companies, may have underperformed the securities of large companies during some periods and tend to have a shorter history of operations than large companies.

The Russell 1000[®] Value Index is an unmanaged, market-weighted index of those large companies included in the Russell 1000[®] Index, an index of about 1,000 large U.S. companies, with lower price-to-book ratios and lower forecasted growth values. The Russell 2000[®] Index is an index of about 2,000 small U.S. companies and the Russell 2000[®] Value Index is an index of those small companies included in the Russell 2000[®] Index with lower price-to-book ratios and lower forecasted growth values. The Russell Midcap[®] Index is an index of about 800 medium-sized U.S. companies. The Russell Midcap[®] Value Index is an index of those companies included in the Russell Midcap[®] Index with lower price-to-book ratios and lower forecasted growth values. Russell Index returns include net reinvested dividends but, unlike the Funds' returns, do not reflect the payment of sales commissions or other expenses incurred in the purchase or sale of the securities included in the indices. An investment cannot be made directly into an index.

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Established in 1988, the Morningstar Fund Manager of the Year award recognizes portfolio managers who demonstrate excellent investment skill and the courage to differ from the consensus to benefit investors. To qualify for the award, managers' funds must have not only posted impressive returns for the

year, but the managers also must have a record of delivering outstanding long-term risk-adjusted performance and of aligning their interests with shareholders'. The Fund Manager of the Year award winners are chosen based on Morningstar's proprietary research and in-depth qualitative evaluation by its fund analysts.

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