Artisan International Value Fund

QUARTERLY
Commentary

Investor Class: ARTKX | Advisor Class: APDKX | Institutional Class: APHKX

As of 30 June 2023

Investment Results (%)

			Average Annual Total Returns				
As of 30 June 2023	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception
Investor Class: ARTKX	**3.97**	**14.48**	**22.69**	**16.72**	**8.39**	**7.99**	**11.50**
Advisor Class: APDKX	**3.99**	**14.55**	**22.84**	**16.88**	**8.55**	**8.13**	**11.56**
Institutional Class: APHKX	**4.02**	**14.62**	**22.96**	**16.98**	**8.65**	**8.24**	**11.69**
MSCI EAFE Index	2.95	11.67	18.77	8.93	4.39	5.41	7.09
MSCI All Country World ex USA Index	2.44	9.47	12.72	7.22	3.52	4.75	7.28

Source: Artisan Partners/MSCI. Returns for periods less than one year are not annualized. Class inception: Investor (23 September 2002); Advisor (1 April 2015); Institutional (1 October 2006). 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	ARTKX	APDKX	APHKX
Semi-Annual Report 31 Mar 2023[1,2]	1.18	1.03	0.95
Prospectus 30 Sep 2022[3]	1.26	1.12	1.03

[1]Unaudited, annualized for the six-month period. [2]Excludes Acquired Fund Fees and Expenses as described in the prospectus. [3]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.

Dear Shareholder:

The Artisan International Value Fund (Investor Class) increased by 3.97% during the quarter as compared to the increase in the MSCI EAFE Index by 2.95%. Over the last 1, 3 and 5 years, the Artisan International Value Fund increased by 22.69%, 16.72% and 8.39%, respectively.

Investing Environment

As you can see from the figures above, the investing environment this year has been robust. Perhaps too robust, considering how the excitement over artificial intelligence (AI) has driven up prices and valuations; earnings multiples on semiconductor firms and anything even tangentially related to AI have risen significantly. Nonetheless, with global equity markets, as measured by the MSCI World Index, up 15% year to date, a lot of wealth has been created (approximately $15 trillion).

During the quarter, global equity markets were up 7% led by the US, with the MSCI USA Index up more than 8.5%. Developed foreign markets lagged, up 4% in local currency, or 3% in dollars as measured by the MSCI EAFE Index. The dollar weakened against the major European currencies but rose against the Japanese yen, which devalued by 9%.

There is plenty of excitement in Japan this year. The Nikkei 225 Index is up 27% in yen year to date, and it was up 18% in Q2. Similar to the US, the largest contributors came from AI cheerleaders buying up semiconductor-related stocks. Even before the run-up, these equities were trading at full valuations. Unless AI demand percolates quickly, turning promise into profits, these equities are likely overvalued. Other factors fueling stocks in Japan include the collapsing yen (which boosts exporter profits) and improvements in corporate governance.

Most Japanese equities have been statistically cheap for the entire 30 years we have been investing outside the US. And for good reason. Japanese companies have consistently delivered low returns, and poor corporate governance allowed companies to resist shareholder pressure to improve. But that historical pattern is changing. Encouraged by the government and new rules for index inclusion, companies are trying to generate a minimum 10% return on equity (ROE). A 10% ROE would be considered mundane for a company outside of Japan; however, this would be a significant improvement for most Japanese companies. In addition, boards are adding independent directors, so shareholders get a voice or two in how things are run. As a result, interest in Japanese equities has surged.

How do we see it? Our research suggests a valuation bifurcation between well-managed, globally competitive businesses perpetually in the expensive column and the sleepy, more traditional companies that are poorly governed and highly inefficient. Companies in the first category, such as Daikin Industries and Fast Retailing, were big drivers in this quarter's performance. But their valuations have gone from expensive (25X earnings) to more expensive (31X). As for companies in the second category, valuations have ticked up on the expectation of better corporate governance, even though improvement has been slow or mediocre. We have decided to allocate capital elsewhere.

One more observation regarding Japan is important. We need to earn in dollars. Though the Nikkei 225 Index was up 18% in yen during the quarter, the return in dollars was 9%. If you consume in dollars, as we and our clients do, that 18% is meaningless.

There are a few observations one can make regarding potential reasons for the yen's devaluation. First, Japanese inflation is rising while US inflation is falling, making the dollar more desirable.

Similarly, real interest rates in the US are going up while real rates in Japan are going down, again making the dollar more attractive. On a longer term view, macro policy in Japan looks misguided at best. It is characterized by massive deficit spending, negative real interest rates and debt monetization—a recipe for collapse in the confidence and value of a currency. Indeed, the yen has devalued by about 10% so far this year against an already strong dollar. Given that Japan relies on the importation of food, fuel and other commodities, all priced in dollars, the country is importing inflation at a rapid rate. The locals are getting hit hard.

As for dollar earners, now is a good time to visit Japan. Based on purchasing power, the dollar goes a very long way.

Portfolio Discussion

Samsung Electronics, Philips and ABB were the largest positive contributors to the portfolio's return this quarter.

We have written extensively about Samsung Electronics in prior letters. As a short reminder, Samsung is in the midst of a memory chip downturn. As excess inventory gets worked down and low chip prices spur consumption, the industry is getting closer to a healthier balance between supply and demand. Perhaps that drove the share price, or perhaps it rose on expectations of increased memory demand for AI applications. The share price increased by 11% during the quarter.

Philips is a Netherlands-based med-tech company. As we've written about before, the company is executing a disruptive recall of one of its products. That recall has come with related fines and lawsuits. During the quarter, the company reported improved financial results. In addition, testing results on the company's recalled CPAP machine revealed little to no harm to humans. Those results may help mitigate the cost of any eventual legal liability. The share price increased by 24%.

ABB is a Switzerland-based electronics manufacturer. Over many years, ABB has reduced complexity in its business, and that has helped improve top-line growth and profit margins. The trend continued in the most recent results. The share price increased by 15%.

Alibaba was the worst performing stock during the quarter, despite the announcement of a significant change in corporate strategy that will lead to monetization of certain company operations. Alibaba' s core business, e-commerce, continues to face challenges, though profitability remains high and cash flow generation is strong. Reported profits during the quarter grew significantly as the company reduced costs.

Outside of the core e-commerce business, Alibaba operates a number of other businesses, including China's leading cloud service, an international e-commerce business and a domestic logistics operation. During the quarter, the company announced that these businesses will run autonomously from both an operational and a capital standpoint. From a shareholder's perspective, an IPO, capital raise or demerger of these operations will crystallize the value of these growing but not yet profitable businesses—an obvious catalyst to value realization. The company also announced significant share repurchases and the intention to continue share buybacks at what we believe is an attractive valuation. Despite improved results and these efforts toward value creation, the share price declined by 18%.

Nokia is the world's third-largest provider of telecommunications equipment. The company sells its products to service providers, such as AT&T and Vodaphone. While we have held the stock, new management has simultaneously improved competitiveness and reduced costs—a remarkable achievement that has resulted in improved growth and profitability. Despite that, the share price has declined, and the valuation multiple has shrunk below 10X forward earnings. The reason is that telecommunications operators are cutting back on investment. Higher interest rates, inflation and competition are eating into customer cash flows, resulting in less capital spending. For now, Nokia will experience reduced demand. At some point, the ever-increasing need for wire and wireless bandwidth will force service providers to increase investment. In addition, Nokia's market share is improving due to geopolitical changes and improved market competitiveness. The share price declined by 15% during the quarter.

Liberty Global, one of Nokia's clients, suffered a 13% share price decline. Liberty operates four telecommunications service providers located in the UK, Belgium, Switzerland and the Netherlands. These service providers are facing the same issues discussed above: higher inflation, competition and higher interest rates. The share price has gone from cheap to very cheap despite management's significant value creation over time and significant share repurchases. We and other shareholders have lobbied the company to simplify its structure, de-lever the operating subsidiaries and better align compensation with shareholder value.

Portfolio Changes

We made two significant purchases during the quarter: Unilever PLC and Bayer AG. Both companies have been owned in prior years. And the share price of both companies became more attractive at least partially due to the stock market's recent focus on technology stocks.

Unilever PLC is a manufacturer of consumer goods with a market cap of 100 billion pounds. You will be familiar with some of their products, such as Ben and Jerry's ice cream, Dove Soap and Hellman's mayonnaise. The company is a global powerhouse with 60 billion euros in revenue and 14 brands with sales over 1 billion euros. Dove, Knorr and OMO (Old Mother Owl, which is a global detergent brand) generate more than 4 billion euros in sales each. The company is diversified across five global divisions, including beauty and wellbeing, personal care, homecare and nutrition. Each of these businesses generates between 12 billion and 14 billion euros in revenue. Ice cream is the fifth division with close to 5 billion euros in revenue.

Over the last five years, the share price has done nothing. In December 2021, in a desperate attempt to rekindle growth, management made a surprise bid for a large over-the-counter pharmaceutical business owned by GlaxoSmithKline—at what looked like a steep valuation. Already restless shareholders revolted as the share price plummeted. Management's desperation put it in a compromised position that couldn't be reversed by subsequently calling off the deal.

The situation attracted an activist, Nelson Peltz, and in May 2022 Peltz accepted a seat on the board of directors. Back in 2017, Peltz won a board seat at Procter & Gamble, a similar consumer products company. Over the last five years, Procter & Gamble's share price has almost doubled. So, what can be done to repeat that success?

Peltz's playbook is being implemented. The largest change is a management shakeup including a new CEO and CFO. The complicated matrix structure, typical of many consumer products companies, has already been simplified. Businesses have been reorganized by business line rather than by geography, eliminating several layers of bureaucracy. Finally, the company is focusing on key brands and key geographies, further simplifying the business.

Despite efforts at improvement, the share price has lagged. Why? First, the post-COVID inflation that has impacted all consumer products companies has also hurt Unilever's gross margin. Gross margin has declined by over 300bps since pre-pandemic (2019), wiping out nearly 20% of operating profit. Restoration of that margin requires significant price increases. Although the entire industry faces the same issue, companies like Unilever that sell premium branded goods face elasticity issues. While pricing partially restores economics, volumes decline. Over time, as wages catch up to broad inflation, brand value will win. In the meantime, shareholders get impatient with profit headwinds, and the share price lags.

The second reason, alluded to above, is a stock market focused on growth equities, leaving slower growth companies behind. Fine with us.

We believe by 2025, partial gross margin restoration along with cost-cutting from the new organization will drive EPS above 3.10 euros per share. That places the shares below 15X earnings, cheap for a portfolio of super brands. This linear analysis is the best we, as financial analysts, can do. What is not captured here is what could take place through better capital allocation, better management, increased focus and better board supervision—those same factors that have driven the share price of Procter & Gamble. We look forward to watching this develop over the next few years.

Bayer AG is a Germany-based conglomerate. About 50% of the revenue comes from crop science, 40% of revenue from pharmaceuticals and 10% from OTC pharmaceuticals.

There are a number of parallels with Unilever. First, the company operates inherently valuable businesses with private market valuation support well above what is implied by today's share price. Second, operating performance has been terrible, which has led to new management and activism. Finally, the stock is cheap. In fact, we forecast the company earning just under 6 billion euros of free cash per year, placing the shares at 8.5X free cash flow.

That sort of valuation does not come without issues and risks. There are several. The largest one is liability issues surrounding the company's crop science business. Long-term shareholders will recall losses incurred by the portfolio as a result of these issues back in 2018. As years have passed, litigation and settlements have progressed to a point where we believe we can estimate the level of losses within a reasonable range. Though the liability is significant, we believe it is manageable and fully baked into today's valuation. In addition to liability issues, the company's largest drugs in the core pharmaceutical business are facing patent expiration. Finally, the company carries more financial leverage than is reasonable for a business of this nature. That said, management is publicly focused on deleveraging, which could happen organically or through asset disposals, with a target of an A rating.

We applaud the objective to achieve an A rating. Financial strength as an objective is rarer than it should be in today's corporate world. It bewilders us why so many companies cede such a simple competitive advantage.

It is new management's job to repair these issues. Bill Anderson is the newly appointed CEO. He arrives in Leverkusen, Germany, from Zurich, where he was CEO of Roche's pharmaceutical business. Bill, who is 56, has had a long career in biotech, including time at Biogen and, more importantly, at Genentech. It is notable that both Biogen and Genentech had incredibly productive R&D organizations. It is also notable that his time at Roche was dominated by restructuring an organization that had to be downsized due to drugs coming off patent. Bill will have to do the same at Bayer. Another challenge he will face is improving profitability at the company's OTC pharmaceutical business. That business earns below-industry margins. Bill's deep experience building a performance culture should be relevant.

Several activists are calling for a breakup of Bayer. We agree. Returns can be increased both from operational improvements and organizational restructuring.

Boots on the Ground

It is easy for an analyst to sit in an office and push around numbers. Though a good starting point, businesses cannot be fully understood from a spreadsheet. Meeting executives and understanding their mindset and culture is an imperative part of our process. Viewing assets and how they operate helps us analytically evaluate the very nature of the business. This is not artificial intelligence; this is real intelligence. Here are a few shots from a recent research trip. Not of a business we own shares in, but of a company that competes with one we own. We learn more about what we own by visiting the competition.

Here is what a Canadian oil sands crushing facility looks like.

Here is where the valuable ore comes from.

And here are the boots on the ground.

Thank you for your support.

N. David Samra

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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. 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.

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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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Return on Equity (ROE) is a profitability ratio that measures the amount of net income returned as a percentage of shareholders' equity. **Forward Earnings** are an estimate of the next period's earnings of a company, usually till the completion of the current fiscal year and sometimes to the following fiscal year. **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. **Earnings Multiple**, sometimes referred to as Price-to-Earnings, is a valuation ratio of a company's current share price compared to its per-share earnings.

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