

Artisan International Explorer (ARDBX/ARHBX)

By David Snowball, publisher

This profile originally appeared in the *Mutual Fund Observer*,
September 2023.



Objective and strategy The investment team seeks to invest in high-quality, undervalued businesses with the potential for superior risk/reward outcomes. The investment universe is generally non-US equities with market caps below \$5 billion. The portfolio is typically 25-50 holdings, with individual holdings capped at about 10% and cash generally under 15%.

Adviser Artisan Partners, L.P. Artisan is a remarkable operation. They advise the 21 Artisan funds, as well as a number of separate accounts. Artisan Partners is organized into ten autonomous investment teams, each responsible for a specific strategy (Growth, Global Equity, US Value, International Value, Global Value, Sustainable EM, Developing World, and Credit plus Antero Peak and EMSights Capital groups), and each is given logistical support from the central operations team. Their management teams are stable and invest heavily in their own funds. Artisan manages about \$129 billion in assets for 272 clients, including \$32 billion for non-US citizens (per Form ADV, 12/31/2022).

Morningstar considers them an “above average” advisor, with special recognition of the managers’ willingness to close funds to new investors in order to protect existing ones: “Capacity management has been a strong point here, with more than half the firm’s lineup having been closed to new investors when the managers deem fit.” Currently, three of 21 funds, including International Value, are closed to new investors.

Manager Beini Zhou and Anand Vasagiri. Both Zhou and Vasagiri were trained as Artisan analysts on the International Value team by David Samra (2005-12 and 2007-10, respectively) before talent and ambition led them to leave the firm in order to lead their own portfolios. Both have 18 years of experience.

Beini Zhou, CFA, is a co-portfolio manager for the Artisan International Small Cap Value Strategy. Prior to returning to Artisan Partners in September 2020, Mr. Zhou was a portfolio manager at Matthews Asia, where he managed the Emerging Markets Equity and Asia Value Strategies.

Anand Vasagiri is a co-portfolio manager for the Artisan International Explorer Strategy. Prior to returning to Artisan Partners in September 2020, Mr. Vasagiri was co-head and portfolio manager of the Global Small Cap Strategy for Paradise Investment Management, an Australia-based adviser launched by another Artisan alumnus, from 2010 to 2019.

David Samra plays a supporting role as Managing Director; he has no day-to-day responsibilities but works with the team as a mentor, advisor, and sounding board. Mr. Samra leads Artisan’s International Value Team, manages the (closed) International Value Fund, and has 30 years of experience. The discipline that Mr. Samra practices is the one that he taught to Messrs. Vasagiri and Zhou and which is practiced across the International Value team.



Beini Zhou and Anand Vasagiri

Historically, the Artisan International Value Strategy has been successful over time and across market cycles. In Artisan International Explorer, you get exposure to what International Value was in its first years: a small, agile portfolio that can benefit from positions in small, obscure, badly mispriced stocks.

Strategy capacity and closure Artisan is very good at closing funds before they become unmanageably large. The managers view this as a capacity-constrained strategy but are understandably reluctant to get pinned down to a particular number.

Management's stake in the fund Artisan reports that all three of the portfolio managers have seven-figure sums invested in the strategy, which translates to a material percentage of net wealth for Mr. Zhou and Mr. Vasagiri.

Opening date May 16, 2022. The fund embodies a strategy that was launched on November 1, 2020.

Minimum investment By prospectus, \$250,000 for Advisor, \$1 million for Institutional. At Schwab, Advisor shares are available for \$2,500 in a regular account and \$1,000 in a tax-advantaged one. Other online brokerages have similar arrangements for the fund.

Expense ratio 1.41% for Advisor and 1.36% for Institutional on fund assets of \$80 million.

Comments

There are many reasons to distrust active fund management.

There are even more reasons to trust Artisan.

Most active managers pursue a losing strategy: they anxiously assemble sprawling portfolios of the same large cap US stocks as hundreds of their peers. By our count, 720 funds and ETFs are largely or entirely devoted to US large cap stocks. When 720 funds are all chasing the same 700 large cap stocks, you have “a crowded trade.” How crowded? By recent count, 1020 funds and 590 ETFs own Apple stock. It’s impossible to expect exceptional gains when a thousand analysts are dissecting, and a thousand managers are bidding upon, the same stock.

Artisan is doing the opposite. Managers Zhou and Vasagiri started with the question, “Where is there the opportunity for exceptional gains?” Their research led them to the world’s least crowded trades: international small- and micro-cap stocks. Their investable universe is the 52,000 or so companies with market caps under \$5 billion. It is safe to say that more analysts follow Apple than all international small caps combined. When the team meets with company management, they are sometimes greeted with surprise; when they ask about the last time a stock analyst spoke with them, the answers range from “months ago” or “a year ago” to “I don’t recall one ever.” Even index funds don’t find them; by Mr. Vasagiri’s estimation, only about 8% of their investable universe makes it to the “all-world” index. That utter lack of coverage creates opportunities for mispricing.

The managers were both trained by David Samra, one of Artisan’s senior members, who they worked for as analysts in the 2005-2012 window. Young and ambitious, they left Artisan to take the discipline to their own funds (at Paradise and Matthews Asia), succeeded, and then returned in September 2020 to launch their own strategy. They launched this strategy within about eight weeks.

The strategy is straightforward: find a few high-quality firms that are substantially undervalued in light of their growth trajectories. Buy them. Engage regularly with management. Sell if conditions change; otherwise, hold on to them for the long term.

The distinctions in the strategy carry several implications:

1. **It eschews traditional valuation metrics** in favor of an intrinsic value of calculation, which means that it might look like a growth portfolio from the outside.
2. **It is substantially more concentrated** than its peers, so the importance of getting each individual position right is magnified.
3. **It is sector, valuation metric, and region agnostic**, so it might be substantially out-of-line with its peers. Its current portfolio, for instance, has a much lower market cap, much less exposure to Japan and utilities stocks than its peers, and no exposure to energy and banks, but much more exposure to Latin America, high-quality names.
4. **It requires more human judgment and interaction** than you might see in larger, larger cap sprawling portfolios. One challenge for the managers here is figuring out who really runs the businesses they're investing in, which might be some combination of senior family members whose names are not necessarily on the door. Having identified them and their vision, the managers need to track management dynamics, understand them, and occasionally influence them.
5. **It is substantially capacity constrained** because returns are driven by the performance of small, and sometimes very small, companies. No matter how well the stock of your Indonesian department store chain or Indian credit ratings agency performs, they are too small to make a difference in a large fund's performance, and they trade too lightly to make it past an index fund's liquidity screens. In consequence, the gains in this mispriced corner of the market are best harvested by small, active funds.

“It requires more human judgment and interaction than you might see in larger, larger cap sprawling portfolios. One challenge for the managers here is figuring out who really runs the businesses they’re investing in, which might be some combination of senior family members whose names are not necessarily on the door. Having identified them and their vision, the managers need to track management dynamics, understand them, and occasionally influence them.”

All of which the managers are trained to handle and all of which they (and, famously, Mr. Samra) have handled. Short track records are deceptive, but readers should know that:

1. from inception through August 2023, the fund has outperformed its Morningstar international SMID blend peer group, with a lifetime gain of 9.58% against their peers 5.5%.
2. from inception through July 2023, the fund has underperformed its Lipper International Small / Mid-Cap Value peer group.
3. from inception through June 2023, the fund has roughly tripled the returns of its MSCI AC World ex-US Small Cap Index benchmark. That reflects both the strength of the strategy and the weakness in the index's design.

There are always reasons for investors to approach new options with curiosity and skepticism. Skeptics might reasonably note that the team has not managed together for a long period, and neither the fund nor the strategy has yet established a three-year record.

Bottom Line

In Artisan International Explorer, you get exposure to what International Value was in its first years: a small, agile portfolio that can benefit from positions in small, obscure, badly mispriced stocks.

The team here has a 50,000+ stock universe, but they do not need to assess 50,000 stocks. They need to find 25-50 stocks (0.05% of its universe) that are substantially mispriced, and they need to make ongoing, intelligent judgments about those few stocks. That seems a manageable challenge.

Artisan’s record in launching new funds is nearly unparalleled. The firm’s screening of teams interested in becoming Partners is rigorous, with the vast majority failing the firm’s “potential category-crusher” threshold. Of the 16 Artisan funds with a record of at least three years, 13 have outperformed their peers since inception (through July 2023) in total returns and 12 in risk-adjusted returns, as measured by the Sharpe ratio.

Investors looking for intelligent eclecticism and a strong family should add Artisan International Explorer to their due diligence list.

Fund website [Artisan International Explorer](#)

This article represents the views of David Snowball of Mutual Fund Observer and Beini Zhou and Anand Vasagiri of Artisan Partners as of the date of publication and those views and opinions presented are their own. Artisan Partners is not responsible for and cannot guarantee the accuracy or completeness of any statement in the discussion. Any forecasts contained herein are for illustrative purposes only and are not to be relied upon as advice or interpreted as a recommendation. This material is provided for informational purposes without regard to your particular investment needs. This material shall not be construed as investment or tax advice on which you may rely for your investment decisions. Investors should consult their financial and tax adviser before making investments in order to determine the appropriateness of any investment product discussed herein.

Clarification: Artisan International Explorer Fund has 17.9% cash held in the portfolio as of 6/30/2023.

Investment Results as of 30 June 2023 (%)

Artisan International Explorer Fund	QTD	1YR	3YR	5YR	ITD	Expense Ratios (Gross/Net) Prospectus 30 Sept 2022 ¹
Advisor Class: ARDBX	-0.63	12.51			9.58	1.84%/1.41%
MSCI All Country World Index Ex USA Small Cap Index	2.05	10.93			3.26	

Source: Artisan Partners/MSCI. Returns less than one year are not annualized. Advisor Class inception: 16 May 2022.¹ Net expenses reflect a contractual expense limitation agreement in effect through 31 Jan 2024. See prospectus for further details. Includes estimated expenses for the current fiscal year.

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 800.399.1770 for current to most recent month-end performance.

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 visiting www.artisanfunds.com. 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 environmental, social and governance (“ESG”) 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 ESG 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. Such risks include new and rapidly changing political and economic structures, which may cause instability; underdeveloped

securities markets; and higher likelihood of high levels of inflation, deflation or currency devaluations. 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.

MSCI All Country World ex USA Small Cap Index measures the performance of small-cap companies in developed markets and emerging markets excluding the US. The index(es) are unmanaged; include net reinvested dividends; do not reflect fees or expenses; and are not available for direct investment. MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used to create indices or financial products. This report is not approved or produced by MSCI.

Artisan Partners Funds offered through Artisan Partners Distributors LLC (APDLLC), member FINRA. APDLLC is a wholly owned broker/dealer subsidiary of Artisan Partners Holdings LP. Artisan Partners Limited Partnership, an investment advisory firm and adviser to Artisan Partners Funds, is wholly owned by Artisan Partners Holdings LP.

©2023 Artisan Partners. All rights reserved.



ARTISAN PARTNERS