Artisan International Fund: Positioning for The Post-Pandemic Economy

ARTISAN PARTNERS
Insights

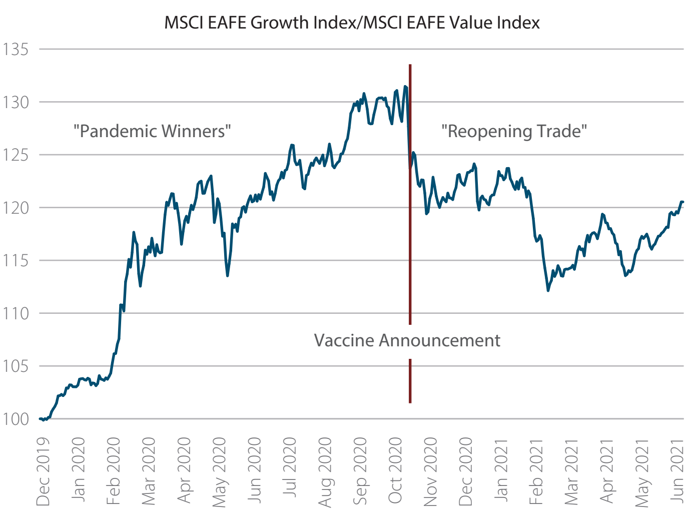
ARTISAN PARTNERS

Artisan International Fund: Positioning for The Post-Pandemic Economy

International Markets Pre- & Post- Vaccine

It may seem like old news by now, but it was only last November that Pfizer and BioNTech announced that their jointly developed vaccine was found to be more than 90% effective in preventing COVID-19. This news was a game changer for markets, triggering a historic rally in global equities with the MSCI EAFE Index's 15.5% November gain its best monthly return in 30 years and third strongest since 1975. The removal of policy uncertainty related to the US election and more specifically, expectations of increased fiscal stimulus under a Democrat administration, added fuel to the rally. Additionally, these events spurred a sharp pro-cyclical rotation evident in the divergent performance of the MSCI EAFE Growth and Value style indices (Exhibit 1). The MSCI EAFE Value Index surged nearly 19% during the month, outpacing the growth index by more than 600bps—marking the Index's fourth-biggest month of outperformance versus the growth index. The economic reopening trade continued into the first half of 2021.

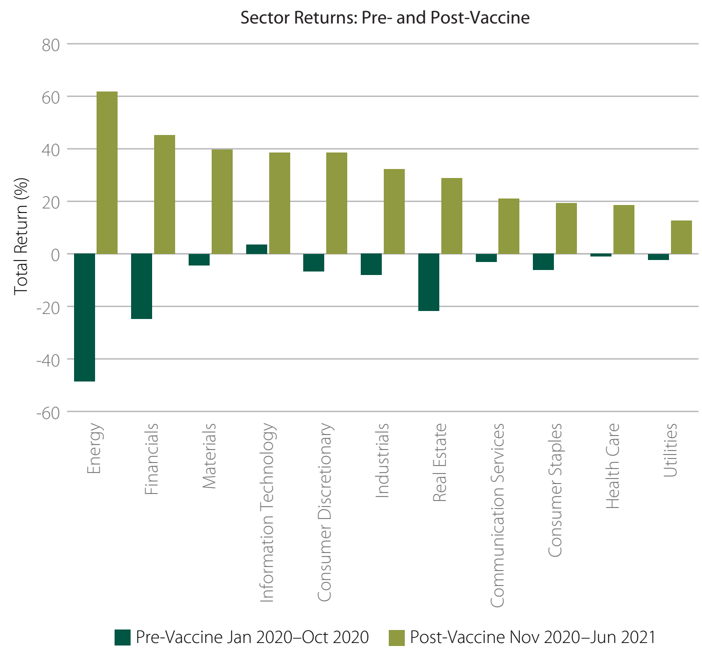
Exhibit 1: Pre- and Post-Vaccine Style Shifts at Extremes



Source: Bloomberg. As of 30 Jun 2021. **Past performance does not guarantee and is not a reliable indicator of future results.**

Prior to the vaccine news, growth stocks had dramatically outperformed their value peers as investors crowded into stocks perceived as COVID beneficiaries. These "pandemic winners" were primarily technology and Internet-related companies that enable remote work arrangements and online shopping. These companies were major beneficiaries of shutdowns and social distancing behaviors reinforcing the secular trends toward e-commerce and cloud software. Indeed, technology stocks in the MSCI EAFE Index were the lone sector to post a positive total return during the January to October 2020 timeframe (Exhibit 2). Conversely, energy and financials shares were weakest. Energy stocks came under pressure as oil demand plummeted, and banks sold off on falling interest rates and credit concerns. Other hard-hit areas included travel-related businesses (e.g., airlines, hotels, restaurants).

Exhibit 2: The Rally in Cyclicals since November 2020



Source: FactSet. Based on MSCI EAFE Index. As of 30 Jun 2021. **Past performance does not guarantee and is not a reliable indicator of future results.**

Since November 2020, the most beaten-down areas have sprung back to life, with returns led by energy and financials. While all sectors have participated in the upside to some degree, defensives and other steadier growth fare (health care, consumer staples and utilities), which had held up better during the early months of the pandemic, have trailed.

The Delta Variant—A Potential Cloud on The Horizon

Over the summer months, the high return dispersion between cyclical and secular growth stocks moderated as the Delta variant renewed concerns over rising infections and a slowdown in economic reopening. While vaccination rates are moving in the right direction in most developed economies, the Delta variant remains a cause for concern primarily among the unvaccinated and especially in countries where vaccination rates are low.

China—Flexing Its Muscle, Imposing Tighter Regulation on Tech & Other Industries

Since late 2020, China has been imposing higher regulations on its domestic tech giants and has also cracked down hard on other sub-sectors, including the for-profit education sector. We have seen episodes like this before where China has made similar moves, curtailing the profitability of certain companies that do not adhere to rules set by the central party. If the past is prologue, this period should be fairly short in duration and these government actions are designed to show that the Chinese government is firmly in control of its economy and to reinforce the government's access to consumers' data held by private sector companies.

In Q2 of this year, we sold out of our large Chinese tech names in response to growing concerns over the speed of tighter regulations and the uncertain impact they would have on our investments. We will continue to monitor the situation in China and will look for better opportunities to reinvest once the investment climate has improved.

Exhibit 3: The Selloff in Chinese Tech Shares

Source: Bloomberg. As of 20 Aug 2021. **Past performance does not guarantee and is not a reliable indicator of future results.**

How the Portfolio Is Positioned for the Post-Pandemic Economic Recovery

The rapid development and approvals of COVID-19 vaccines are game changers in our minds. Though there are still risks, including a slower-than-expected vaccine rollout globally and new variant strains, the market is looking through those to better times in late 2021 or early 2022. Corporate profitability has also held up better than expected, and aside from a few areas like travel and leisure that were hit hard by the pandemic, most companies have navigated the past year quite well.

We have positioned the portfolio for the post-pandemic period by seeking as we always do, sustainable growth at attractive valuations that are exposed to secular growth themes. We believe that innovative companies with exposure to powerful secular trends tend to grow earnings faster and can sustain earnings growth longer than the average company. Secular themes such as Infrastructure, Demographics, Environment, Technology and Financials help to identify investment opportunities. Our thematic approach is balanced with our fundamental analysis. Highlighted below are investment examples in each of these themes that we believe are well positioned coming out of the pandemic.

Exhibit 4: Post-Pandemic Growth Opportunities Benefiting from Secular Growth Themes

Themes	Growth Drivers	Stock Examples
Infrastructure	Rebuilding roads and bridges	**CRH** is a global building materials producer. We first purchased CRH in Q4 2020, prior to the announced $2 trillion US infrastructure plan as we anticipated the likelihood for increased infrastructure spending under a Biden administration. We also like the company's history of strong free cash flow generation and disciplined capital allocation focused on maintaining its dividend. Lastly, CRH is well-positioned, in our view, to expand margins as global growth recovers and as it rationalizes its cost base.
	Reopening economies	**Canadian Pacific Railway** provides rail and intermodal freight transportation services across Canada and the US. Rails should benefit from increased infrastructure spending. A key component of our investment thesis is the company's ownership of a unique and hard-to-duplicate asset, namely its physical railroad network within Canada's rail duopoly (along with Canadian National Railway). We believe companies which possess unique assets are often able to leverage a dominant market position, high barriers to entry, and pricing power, all of which lay a solid foundation for sustainable growth.
Demographics	Changing consumer behavior	**Amazon** is a consumer Internet company that has built significant scale and edge across its business lines through a flywheel model. In e-commerce, Amazon has reinvested its core profits in fulfillment, logistics, content, etc. to enhance customer experience and reduce friction, while seeking monetization via ancillary lines such as Amazon Prime subscription, third-party Fulfillment by Amazon, and advertising. AWS, originally an offshoot of e-commerce, has grown into a self-sustaining entity as the world's largest cloud-computing platform. AWS by itself has become a $54 billion annual sales run rate business and accounts for more than half of Amazon's total operating income.
		Deutsche Post is one of Europe's largest postal service providers. The company offers domestic mail delivery, international parcel services and freight delivery plus logistics services. The logistics industry benefits from structural growth drivers from e-commerce growth. We also believe Deutsche Post's advantageous positioning in emerging markets and strength in its express segment will serve as key drivers of sustainable growth.
Environment	Reducing greenhouse gas emissions to address climate change	**Volkswagen** is a German auto company and owner of Porsche. While Tesla has garnered most of the buzz related to the secular shift to electric vehicles, we believe Volkswagen is well-positioned to be an even larger producer of battery electric vehicles. It's already a larger producer of EVs than Tesla in Europe. Long-term profitability also stands to benefit as EV production costs decline, and we believe EV's profitability may ultimately surpass that of internal combustion engine (ICE) cars. Additionally, backing out Porsche's value, the remainder of Volkswagen is selling cheaply.
		DSM is a Dutch multinational life sciences and materials company active in nutrition, health and sustainable living. Via its Clean Cow project, DSM has spent the past decade developing a new feed additive called Bovaer® that has been shown to reduce methane emissions from cows by approximately 30%. After carbon dioxide, methane is the biggest contributor to global warming. A single cow is estimated to generate three tons of CO_2 equivalent annually. An estimated one billion cows globally generate roughly three billion tons of CO_2 equivalent—approximately 9% of global emissions. Based on our total addressable market (TAM), market penetration and pricing assumptions, we believe Bovaer® has a $1.2bn market opportunity in the EU and New Zealand markets alone.
Technology	Rebounding end markets and the secular trends in increasing semiconductor complexity and applications	**Taiwan Semiconductor Manufacturing Company** is the world's largest foundry (60% market share) and the leader in cutting-edge chips having advanced nodes. Multiple industry tailwinds are driving the need for advanced nodes, and two of these—the ramp in 5G and shift to cloud computing—have been among the biggest drivers of the company's growth. The company's technological leadership in the incredibly complex manufacturing of leading-edge semiconductors and limited competition creates pricing power and makes it one of the world's most important companies.
	The structural shift toward cloud computing	**Accenture** is an IT outsourcing and consulting firm providing the "picks and shovels" of corporate IT investment, with long-term growth tailwinds in the areas of digital, cloud and security. Accenture is benefiting from the ongoing transition to cloud computing as more and more companies shift their technology backbone to the cloud. This trend was only strengthened by the need for social distancing during the pandemic, and we believe increasing flexibility for remote working arrangements will continue long after the pandemic ends.
Financials	Rising rates, reduced loss-provisioning and stronger economic activity	**AIA** is a leading insurance provider in the Asia Pacific region, where penetration rates are significantly lower than in the US. We believe AIA Group is well positioned to benefit from wealth accumulation and increasing demand for insurance in emerging economies, thanks to its diversified product portfolio and history of disciplined management.
		BNP Paribas is one of the world's largest diversified banks. We believe BNP should benefit from interest rate normalization as nominal economic growth in the EU recovers, as well as from declines in loan-loss provisioning following increased provisioning in 2020 driven by model losses amid the pandemic. Despite the YTD share price gains, the stock appears attractively valued for this point in the economic cycle, selling for approximately 0.8X tangible book value.

The Benefit of Experience

Over the course of our team's 25+ years of investing, we've experienced these types of rotations several times—most recently in 2016 and before that were the periods coming out of the global financial crisis and the early 2000s recession. With investment experience encompassing both growth- and value-led market environments, the team has maintained a consistent philosophy and process. Growth stocks have been in vogue for most of the post-global financial crisis (GFC) period, just as value stocks led for much of the 2000s. A consistent and disciplined approach to finding growth companies at reasonable prices (GARP) has provided the flexibility to identify attractive growth opportunities in disparate environments, while avoiding being caught in style traps—being overly concentrated in growth or value at precisely the wrong time. The recent market rotation from growth to value is a perfect example of how investors can be exposed if they are overly concentrated in one style or the other.

Artisan Global Equity team's approach combines the benefits of strong leadership with the creative ideas of experienced analysts. The team believes this approach allows it to leverage a broad set of perspectives into a dynamic portfolio.

Strong Leadership

- The portfolio management team, which includes Mark Yockey, Charles Hamker and Andrew Euretig, averages 29 years of investment experience.
- As founder of the Global Equity team, Mr. Yockey has adhered to the same philosophy and process since the team's inception in 1995.

Experienced Analysts

- The team's leadership is supported by 12 research analysts and 5 research associates.
- The 12 analysts have an average of 17 years of industry experience and significant experience within their sectors or regions of expertise.

For more information: Visit www.artisanpartners.com | Call 800.344.1770

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. 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. 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.

This summary represents the views of the investment team as of 30 Jun 2021 and is subject to change without notice. Security examples are for informational purposes only and are not representative of the entire portfolio. There is no guarantee that investment within the securities mentioned will result in profit. While the information contained herein is believed to be reliable, there is no guarantee as to the accuracy or completeness of any statement in the discussion. This material is for informational purposes only and should not be considered as investment advice or a recommendation of any investment service, product or individual security.

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. We expressly confirm that neither Artisan Partners nor its affiliates have made or are making an investment recommendation, or have provided or are providing investment advice of any kind whatsoever (whether impartial or otherwise), in connection with any decision to hire Artisan Partners as an investment adviser, invest in or remain invested in any funds to which we serve as investment adviser or otherwise engage with Artisan Partners in a business relationship.

For the purpose of determining the Fund's holdings, securities of the same issuer are aggregated to determine the weight in the Fund. Securities named in the Commentary; but not listed here are not held in the Fund as of the date of this report. The holdings mentioned above comprised the following percentages of the Artisan International Fund's total net assets (including all share classes) as of 30 Jun 2021: AIA Group Ltd 3.7%; Koninklijke DSM NV 3.0%; BNP Paribas SA 2.9%; Amazon.com Inc 2.8%; Volkswagen AG 2.1%; CRH PLC 1.9%; Taiwan Semiconductor Manufacturing Company 1.9%; Deutsche Post AG 1.8%; Canadian Pacific Railway Ltd 1.6%; Accenture PLC 0.9%. Portfolio holdings are subject to change without notice.

The MSCI EAFE Index is an index of companies in developed markets, excluding the US and Canada. The MSCI EAFE Growth Index measures the performance of developed markets companies, excluding the US and Canada, that exhibit growth style characteristics according to MSCI. The MSCI EAFE Value Index measures the performance of developed markets companies, excluding the US and Canada, that exhibit value style characteristics according to MSCI. Bloomberg Commodity Index is a broadly diversified commodity price index.

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.

Free Cash Flow is a measure of financial performance calculated as operating cash flow minus capital expenditures. **Return on Capital (ROC)** is a measure of how effectively a company uses the money (borrowed or owned) invested in its operations. **Price-to-Earnings (P/E)** is a valuation ratio of a company's current share price compared to its per-share earnings. **Tangible Book Value** is a measure of a company's shareholder equity after removing any intangible assets.

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.

A R T I S A N P A R T N E R S