Beini Zhou and Anand Vasagiri at Artisan Partners: **A Year in Review**

Artisan International Explorer Strategy

Composite Inception
1 November 2020

Managed by
Artisan Partners International Value Team

Total Net Assets (as of 31 December 2021)
$24 Million

Beini Zhou and Anand Vasagiri returned to Artisan Partners in 2020 to incept the Artisan International Explorer Strategy. As we mark the strategy's first year of performance, we want to recap the portfolio's creation, review what we believe to be our team's competitive edge and highlight our approach to valuation.

Our Goal Is to Generate Alpha, Not Asset Class or Factor Exposure

Our original intent in returning to Artisan was not to launch a non-US small-cap value strategy. It was much simpler—maximize alpha. We sought to utilize our time-tested investment approach in a way that would maximize our odds of generating alpha over the long term. With this in mind, we quickly zeroed in on the non-US small cap space, which we believe to be the most inefficient corner of the global public equity market. The asset class is so inefficient because there is very little research coverage on small-cap stocks (particularly outside the US), and many of them are either neglected or misunderstood. Thus, we reasoned if we could:

- Utilize the proven investment philosophy of buying quality businesses at a substantial discount to their intrinsic value,
- Apply that philosophy to what we believe is the least efficient area of the public equity market, and
- Construct a concentrated, high-conviction portfolio that is truly benchmark agnostic,

then this should be a good recipe for maximizing alpha potential. This thought process led to the formation of this strategy at the end of September 2020, and we have been off and running since then.

While we are delighted to have substantially outperformed our benchmark thus far, we also realize the potential danger in drawing too many conclusions from such a short time period. That said, there is one key point we believe is worth highlighting. On the surface, the simple fact that our strategy has outperformed is nothing remarkable, as many value strategies have outperformed over this time period thanks to the so-called "value rotation." What is remarkable, however, is how we have delivered outperformance. As it turns out, our portfolio has not been a beneficiary of this value rotation at all. In fact, our focus on finding high quality, financially sound businesses resulted in a lack of exposure to deep cyclicals such as banks and energy, and this has been a material headwind to our performance since inception. Therefore, we believe there is more robustness, and hopefully longevity, to our alpha-generation approach, than one that simply leverages traditional value factors.

Organizational Edge With Alignment of Interests

Setting aside for a moment the stock-picking successes we have had over the last year, we would also like to highlight what we consider to be our organizational advantage. Managing a non-US small-cap portfolio is an afterthought for many of our peers, who often manage other products with a greater capacity for raising assets. In our case, this is all we do. Our future depends on the success of this strategy, and only this strategy. Further aligning our interests with our clients, we both have a material portion of our personal wealth invested alongside you.

We are also fortunate to be employed by an organization that allows us to fully invest with our convictions, without being constrained by short-term tracking error concerns. While some may disagree, we don't view our current portfolio of 30-40 securities as particularly concentrated. Rather, we look around at many of our peers and consider them to be overly diversified, thereby limiting their ability to outperform net of fees and expenses.

In short, we are fully dedicated to creating alpha in an inefficient part of the public equity market with a limited-capacity strategy. This setup may not make much commercial sense to many short-term focused organizations, but we're playing a long game, and believe that to be a material part of our organizational edge.

Three-Fold Investment Edge

Researching non-US small-cap companies is nothing like researching companies in the S&P 500. Even in today's digital age with most information just a Google search away, many of the names in the non-US small-cap space receive no coverage from Wall Street or online. While this makes our jobs harder in the sense that there often is no pre-existing research to leverage, therein lies the opportunity. This is exactly what makes our jobs so fun and rewarding—exploiting inefficiencies and playing them to our advantage. We thrive on uncovering qualitative and quantitative information on businesses and the people behind them, and going the extra mile to obtain information and insights that help differentiate our views.

Once information has been gathered, our focus shifts to interpretation. Two investors can walk out of the same management meeting reaching quite different conclusions simply because they uphold different variables or weigh the same set of variables differently. This is one area where we believe our background as generalists is a significant advantage. As opposed to the relatively narrow focus of an industry or region specialist, we have spent our careers analyzing businesses across all industries and geographies. This has given us a rich mental database from which we can connect dots and recognize patterns more efficiently than would otherwise be possible. We believe this is a significant advantage when attempting to cover such a broad and varied universe as non-US small caps.

The final piece of the puzzle is taking a long-term view rather than focusing on what may happen next quarter or year. Think of a great business that's been a long-term compounder over many years; do you remember what they did in Q2 2014 or Q4 2018? There are inevitably zig-zags along the way, even for a great business run by outstanding management, so we believe it is important to focus on a company's long-term trajectory rather than getting lost in quarterly fluctuations.

We believe we have an edge in all three of the aforementioned areas, but when combined, they become even more substantial, and particularly so when compounded over many years.

We Are Not Simply Buying Cheap Companies, We Are Buying Undervalued Businesses

As value investors, of course we prefer buying things that are cheap. However, statistical cheapness (e.g., low P/E, low P/B) is not nearly sufficient for us to get excited about an opportunity. In fact, it can often prove to be counterproductive and lead to "value traps." We define "value traps" as companies with optically cheap multiples, but that ultimately lack the other key characteristics we seek—high quality, strong balance sheet and good management. Simply put, we avoid these businesses. While we demand at least a 30% discount to intrinsic value, we also require the prospect of double-digit compound annual growth over time for each of our holdings.

The combination of our focus on identifying high quality growing businesses and indifference to current statistical cheapness will at times make our portfolio multiples look relatively high compared to that of our benchmark and somewhat counterintuitive for a value manager. But this is no style drift. We believe this differentiated approach to value investing is a feature of what we do, not a bug, and is another reason why we expect to generate sustainable returns above and beyond that of a simplistic "value factor."

Finding Value in the "New Economy"

You may be surprised to see a value manager own businesses today in new economy areas such as SaaS software, automation for electric vehicle battery assembly, insurtech, digital advertising, vaccine and gene therapy, hydrogen energy and digital music streaming. We are convinced most value managers simply dismiss these industries as "growth" or "momentum," and are much more comfortable playing in their historical comfort zones of banks, industrials, deep cyclicals, etc. Our approach is much more agnostic. As bottom-up stock pickers, we never start with a preconceived idea (good or bad) about a particular sector or industry and its potential opportunities or lack thereof. We didn't dismiss these industries as growth/momentum stories and "that's not what we do as value investors," nor did we intentionally seek them out to try to capitalize on the current positive sentiment. We simply did what we always do—implement our same investment philosophy and process regardless of where that may lead us.

Indeed, this is one of the real benefits of investing in such an inefficient area of the market. The more efficient the market, the more trade-offs investors typically need to make—do you want to invest in an expensive, fast-growing company in an ascending industry; or would you prefer a cheap company, with low growth in a stagnating industry? As we operate solely in the inefficient non-US small-cap universe, we often don't need to make these trade-offs. Each of these new economy companies satisfies each of our four key investment criteria—high-quality business, shareholder-oriented management, financial strength and at least a 30% discount to intrinsic value. The fact that they also happen to be plugged into a new economy secular growth sweet spot is just icing on the cake.

What Could Go Wrong?

One of our favorite questions to ask management when wrapping up a meeting is—if things don't work out as planned five years from now, what would be the biggest reason? As value investors, we constantly obsess about what could go wrong. So let us attempt to apply this same question to our own business. While we are likely to make some mistakes in stock selection as all investors do, we believe the biggest systemic risk lies in being blindsided by our own personal biases. All human beings carry some degree of bias; based on past experiences, their personal view of the world around them, etc. The key is not avoiding bias altogether (which is impossible), but rather being self-aware, accepting of one's own biases and being open to differing points of view.

This is much easier said than done, and we believe, easier to accomplish with the help of someone else. This is yet another way we believe our partnership is an advantage. With every company we consider for investment, one of us can play devil's advocate and attempt to identify and combat the biases of the other. In the pursuit of intellectual honesty, before we do a deep dive on a new name, we both attempt to disclose our relevant biases (good or bad) about the company, the management team, the industry, the geography, etc. This helps us have a clear picture of the other's initial point of view, from very early on in the process. We then devise a company-specific plan for management interviews to compensate for these biases. For example, if one of us is positively biased towards a particular company, the other will lead the management meeting to try to poke holes in the other's thesis. While eliminating the risk of personal bias leading to unfavorable outcomes is impossible, we believe our partnership and openness with each other significantly mitigates this risk to the benefit of our clients. We believe we are off to a great start, and so long as we remain open-minded and intellectually honest, we maximize our odds of success over the long term.

Investment Results

(% USD) as of 31 December 2021	Average Annual Total Returns QTD	1 Yr	Inception
Composite—Gross	-0.16	20.65	40.85
Composite—Net	-0.17	18.38	38.11
MSCI AC World ex USA Small Cap Index	0.62	12.93	31.41

Annual Returns (% USD) 12 months ended December

	2019	2020	2021
Composite—Gross	—	—	20.65

Source: Artisan Partners/MSCI. Returns for periods less than one year are not annualized. Composite inception: 1 Nov 2020.

Past performance does not guarantee and is not a reliable indicator of future results. Current performance may be lower or higher than the performance shown. Composite performance has been presented in both gross and net of 0.70% investment management fees and 20% performance based fee (subject to high-water mark).

Investment Risk: Investments will rise and fall with market fluctuations and investor capital is at risk. Investors investing in strategies in non-local currency should be aware of the risk of currency exchange fluctuations that may cause a loss of principal. These risks, among others, are further described in the Important Disclosures section which should be read in conjunction with this material.

Investment Process

The investment team seeks high-quality, undervalued businesses that offer the potential for superior risk/reward outcomes.

Undervaluation

- Determine the intrinsic value of the business
- Invest at a significant discount to intrinsic value

Business Quality

- Strong free cash flow
- High/improving returns on capital
- Strong competitive positions

Financial Strength

- Strong balance sheets reduce potential for capital risk
- Provides management ability to build value

Shareholder-Oriented Management

- History of building shareholder value

Portfolio Construction

- Typically 25-50 holdings
- Maximum position size generally 10%[1]
- Typically less than 20% cash

[1]Limitations apply at the time of purchase.

Portfolio Manager Bios: Beini Zhou and Anand Vasagiri

Beini Zhou is a co-portfolio manager for the Artisan International Explorer Strategy. In this role, he oversees the research process and conducts fundamental research as a generalist. 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 and co-managed the Asia Small Companies Strategy. Before that, Mr. Zhou was an analyst for the Artisan International Value and Global Value strategies from 2005 to 2012. Earlier in his career, he was a product manager with Oracle, where he designed enterprise software. Mr. Zhou holds a BA in Applied Mathematics from Harvard College and a MS in Computer Science from University of California-Berkeley. He is fluent in Mandarin.

Anand Vasagiri is a co-portfolio manager for the Artisan International Explorer Strategy. In this role, he oversees the research process and conducts fundamental research as a generalist. Prior to returning to Artisan Partners in September 2020, Mr. Vasagiri was co-head and portfolio manager for the Paradice Global Small Cap Strategy from 2010 to 2019. Before that, Mr. Vasagiri was an analyst for the Artisan International Value and Global Value strategies from 2007 to 2010. Earlier in his career, he was an investment analyst for the global emerging markets team at Pictet Asset Management. Mr. Vasagiri holds a Bachelor of Engineering in Mechanical Engineering from M.N. National Institute of Technology, India, an MIM from the Thunderbird School of Global Management (ASU) and an MBA from the University of Chicago Booth School of Business.

For more information: Visit www.artisanpartners.com

Effective March 31, 2022 the Artisan International Small Cap Value Strategy has been renamed the Artisan International Explorer Strategy.

Investment Risks: **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-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. Investments will rise and fall with market fluctuations and investor capital is at risk. Investors investing in strategies denominated in non-local currency should be aware of the risk of currency exchange fluctuations that may cause a loss of principal. These risks, among others, are further described in Artisan Partners' Form ADV, which is available upon request.**

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MSCI AC World Ex USA Small Cap Index measures the performance of small–cap companies in developed and emerging markets excluding the US. S&P 500® Index measures the performance of 500 US companies focused on the large-cap sector of the market. The index(es) are unmanaged; include net reinvested dividends; do not reflect fees or expenses; and are not available for direct investment.

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

1/20/2022 – A22506L-vXUS