

# Artisan Partners International Value Team

## Investment Philosophy and Process

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Artisan International Explorer Fund

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# Artisan Partners International Value Team

## Our Investment Team

Research is the foundation of all that we do, and we consider ourselves research analysts primarily and portfolio managers secondarily. There are two principles that drive our research. First, we strive for intellectual independence. We do not rely on third-party research or data sources, but instead apply ourselves to multiple primary sources. We form our own view about industries, businesses and the people who manage them. Second, we are generalists, organized by geographical region rather than by industry. This allows us to connect the dots globally. By studying different business models across multiple industries, we are oriented toward finding attractive absolute return investments that meet our demanding investment criteria.

## Our Investment Philosophy

There are three key components to our investment philosophy: valuation discipline, a long-term perspective and a focus on risk management.



### Value Investing

Our team seeks investments defined by four key criteria: undervalued, high-quality, financially strong and shareholder-aligned management without regard for traditional value investor labels. In our view, a good business is one whose value can grow and compound over time. The business should have an attractive valuation which means an investor can buy each dollar we estimate in value for 70 cents or less. It also should be a financially strong company with a good balance sheet meaning it has reasonable financial leverage, with net debt to EBITDA typically below 2.5X. Finally, the business should have shareholder-aligned management with leaders who sensibly deploy capital through organic capital spending, mergers and acquisitions, share buybacks or dividends.



### Long-Term Investment Horizon

Broadly, value investing requires patience and taking a long-term perspective. Our time horizon is measured in years, typically over three-to-five years. Within this paradigm, we focus on identifying high-quality and undervalued businesses, as we define them, with superior risk/reward characteristics. Over a shorter time horizon, market noise can dominate signals and influence perception, but over a longer time horizon, business and management team quality will likely shine through. Therefore, we focus on business-by-business analysis, paying particular attention to governance, to determine what makes each company tick, coupled with keeping a longer time horizon.

*We focus on creating alpha in one of the most inefficient areas of public equity markets.*

### Risk Management

We seek to add alpha through relatively concentrated bets on our highest conviction names while avoiding overexposure to any particular risk factor, whether by country or industry. In our initial examination of risk factors, we first consider the potential for permanent loss of capital. From an individual holdings perspective, this occurs through a methodical examination of governance risk, which is a risk factor of particular concern for small-cap investors. We then evaluate for operating leverage risks and value traps—which are investments trading at such low levels that buying opportunities for investors are actually misleading. Broadly, our portfolio composition is a result of bottom-up research and careful stock selection with a prudent macro risk assessment overlay.

## Our Investment Process

INVESTMENT UNIVERSE: GENERALLY NON-US EQUITIES WITH MARKET CAPS BELOW \$5 BILLION

### Qualitative Screen

- Prejudicial org structures
- Inadequate laws
- Inadequate accounting disclosures
- Regulatory immaturity

### Quantitative Screen

- Low P/E, P/B
- Low EV/Normal EBIT
- Dividend yield
- Stock down
- Money losers
- Earnings growth
- Cash-flow generators

### Keyword Search

- Profit warning
- Spin-off
- Restructuring
- Disenfranchised shareholders

### Knowing Our Markets

- Cheap companies
- Out-of-favor businesses
- Good companies richly priced

Work List

Primary Data, Valuation, Proprietary Research

- Analyze financial reports and documents
- Review business trends and profitability
- Form opinion on management ability
- Market share and FCF sustainability
- Competitor and customer checks
- Long-term DCF modeling

Estimate of Intrinsic Value

Our investment universe is broad, but we have developed a skillset that allows us to quickly identify and eliminate companies that do not fit our investment criteria. We do not rely solely on traditional screens and accounting metrics. We also actively assess a company's intangibles such as intellectual property (either through outright patents or expertise in certain sourcing and production processes), leadership quality, culture and capital allocation philosophy. Through these exercises, we aim to avoid investing in businesses with optically low earnings or book multiples which appear cheap but not undervalued to us.

Furthermore, this is a high conviction portfolio which means we do not have to make compromises, investing only in our highest conviction ideas. We also take an evidenced-based approach to position sizing, examining our inherent biases in the process, which results in us delving more into a business's data than we otherwise would be inclined to do. Finally, we are opportunistic, unconstrained by themes, sectors or geography, in our search for value.

### Sell Discipline

We monitor each holding closely, evaluating new information relative to the original reasons for investing. We may sell a stock when we think it is approaching full valuation, changing circumstances affect the investment thesis, a company exhibits deteriorating fundamentals, or more attractive opportunities are identified. Further, investing with a distinctly long-term bias allows for us to take advantage of short-termism in the broader market to adjust position sizes when the longevity or sustainability of a business is not properly priced.

*We also take an evidenced-based approach to position sizing, examining our inherent biases in the process, which results in us delving more into a business's data than we otherwise would be inclined to do.*

## Portfolio Construction

Our portfolio is constructed from the bottom-up without regard to a benchmark. Sector and geographic exposures are a residual outcome of stock selection. However, we employ a number of guidelines and constraints in order to manage the risks inherent in any investment portfolio constructed through fundamental stock selection.

## Artisan International Explorer Fund

- Typically 25-50 holdings
- Maximum position size generally 10%<sup>1</sup>
- Generally Non-US equities with market capitalizations below \$5 billion<sup>1</sup>
- Typically less than 15% cash

<sup>1</sup>Limitations apply at the time of purchase.



**Beini Zhou**

16 years of  
investment experience

**Anand Vasagiri**

16 years of  
investment experience

## Portfolio Manager Bios: Beini Zhou and Anand Vasagiri

Beini Zhou is a co-portfolio manager for the Artisan International Explorer Fund. 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 Fund. 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 Paradise 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.

**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 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.

**Price-to-Earnings (P/E)** is a valuation ratio of a company's current share price compared to its per-share earnings. **Price-to-Book Ratio (P/B Ratio)** is a valuation measure used to compare a stock's market value to its book value. **Enterprise Value** is a measure of a company's value. **EV/EBIT**: A valuation multiple; defined as enterprise value (EV) divided by earnings before interest and tax (EBIT). **EBITDA** is an approximate measure of a company's operating cash flow based on data from the company's income statement. It is calculated by looking at earnings before the deduction of interest expenses, taxes, depreciation, and amortization. **Free cash flow** is a measure of financial performance calculated as operating cash flow minus capital expenditures. The discount rate refers to the interest rate used in **discounted cash flow (DCF)** analysis to determine the present value of future cash flows. **Alpha** is a quantitative measure of the volatility of the portfolio relative to a designated index. A positive alpha of 1.0 means the fund has outperformed its designated index by 1%. Correspondingly, a similar negative alpha would indicate an underperformance of 1%. **Market Cap** is the aggregate value of all of a company's outstanding equity securities.

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 is unmanaged; includes net reinvested dividends; does not reflect fees or expenses; and is not available for direct investment.

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.

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