

# Artisan Partners International Value Team

## Investment Philosophy and Process

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Artisan International Explorer Strategy

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P A R T N E R S

# 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.

### 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.

*We focus on creating alpha in one of the most inefficient areas of public equity markets with a limited capacity product.*

## 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, our portfolio's concentration 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 Strategy

- Typically 25-50 holdings
- Maximum position size generally 10%<sup>1</sup>
- Market capitalization range generally similar to the constituents of the MSCI All Country World (ACWI) ex-USA Small-Cap Index<sup>1</sup>
- Typically less than 20% cash

Based on a model portfolio. <sup>1</sup>Limitations apply at the time of purchase.



**Beini Zhou**

16 years of investment experience

**Anand Vasagiri**

17 years of investment experience

## 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 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.

This section contains information important to a complete understanding of the material presented. Please review it carefully.

**Investment Risks:** International investments involve special risks that may in particular cause a loss in principal, 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. 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.

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**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.

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