

Artisan International Value Fund

A Discussion with Artisan Partners International Value Team portfolio manager David Samra

PORTFOLIO MANAGER
Viewpoints

December 2018

The light can at *any time* go from green to red without pausing at yellow.

Warren Buffett, 2017 shareholder letter

This quote sums up the stock market near the end of 2018. Sentiment has changed dramatically. At the beginning of the year, international markets were looked upon as a valuation opportunity. Risks were ignored coming off breathtaking returns in 2017. As 2018 concludes, international markets have become less interesting to pundits, and risks—rather than opportunities—have become the focus.

Over the last few years, we have consistently highlighted the fact that both the stock market and our own portfolio have been relatively unattractive. Today, on the back of persistent selling that at times has seemed almost mechanical, circumstances, and our own opinion, have changed dramatically.

Based on our earnings estimates, the portfolio's valuation is inexpensive—as you can see from Exhibit 1. Non-financials trade at a pre-tax multiple of 9.0X and an after-tax P/E on normalized earnings of 9.5X. The portfolio's holdings are financially strong, with non-financials aggregating \$649mn of net debt against \$9.1bn of market value. More than one-third of the portfolio's non-financial securities have net-cash balance sheets. Financials, including European banks and Arch Capital in the property casualty insurance business, trade at 86% of year-end 2017 book value, with meaningful growth in that book value through the first nine months of 2018, and a normalized P/E of 7.6X earnings. Finally, the three holding companies we own trade at 72% of book value.

The return potential of the portfolio—measured by the difference between the portfolio's market value and the portfolio's estimated intrinsic value—is at one of the most attractive levels in our operating history.

Exhibit 1: Portfolio Statistics (as of 27 Dec 2018)

	Market Value (mn)	Net Debt (mn)	EV/EBITA ¹	P/E ¹	P/B	P/NAV
Non-Financials Holdings	9,098	649	9.0X	9.5X	—	—
Financials Holdings	2,236	—	—	7.6X	0.86X	—
Holding Companies	636	—	—	—	—	0.72X

Source: Artisan Partners. ¹Based on the team's estimates of normalized earnings. Portfolio subcategories determined by the investment team.

Though these statistics say nothing about the stock-market's short-term direction (the portfolio can always get cheaper), what we can say is that in our view, the portfolio holds strong businesses trading at a large margin of safety, combined with the potential for significant revaluation—a statement we are happy to make for the first time in many years.



N. David Samra
Portfolio Manager

26 Years Investment
Experience

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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.

International investments involve special risks, including currency fluctuation, lower liquidity, different accounting methods and economic and political systems, and higher transaction costs. These risks are typically 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.

This summary represents the views of the portfolio manager as of 27 Dec 2018. Those views may change, and the Fund disclaims any obligation to advise investors of such changes. For the purpose of determining the Fund's holdings, securities of the same issuer are aggregated to determine the weight in the Fund. These holdings comprise the following percentages of the Fund's total net assets (including all classes of shares) as of 30 Sep 2018: Arch Capital Group Ltd 4.0%. Securities named in the Commentary, but not listed here are not held in the Fund as of the date of this report. Portfolio holdings are subject to change without notice and are not intended as recommendations of individual securities. All information in this report, unless otherwise indicated, includes all classes of shares (except performance) and is as of the date shown. This material does not constitute investment advice.

Portfolio statistics are intended to provide a general view of the entire portfolio, or Index, at a certain point in time. Statistics are calculated using information obtained from various data sources. If information is unavailable for a particular security Artisan Partners may exclude those securities from portfolio statistics.

Net Debt reflects a company's financial leverage as measured by its net debt (total debt minus cash & cash equivalents.) **EV/EBITA** is a measure of the intrinsic value of a business. EV is calculated as the market capitalization of the company plus its long-term debt and other liabilities. EBITA 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 and amortization. **Price-to-Earnings Ratio (P/E)** measures how expensive a stock is. Earnings figures used for FY1 and FY2 are estimates for the current and next unreported fiscal years. **Price-to-Book Ratio (P/B)** is a valuation measure used to compare a stock's market value to its book value. **Normalized Earnings** are earnings that are adjusted for the cyclical ups and downs over a business cycle. **Margin of Safety**, a concept developed by Benjamin Graham, is the difference between the market price and the estimated intrinsic value of a business. A large margin of safety may help guard against permanent capital loss and improve the probability of capital appreciation. Margin of safety does not prevent market loss—all investments contain risk and may lose value. **Book Value** is the net asset value of a company, calculated by total shareholder equity divided by shares outstanding.

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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