Technology is rapidly changing the way we live. The proliferation of mobile devices, the rise of e-commerce and the shift to electronic payments are prime examples. These trends are being enabled and driven by continuous advancements in broadband speeds, wireless networks and semiconductors. And the application of technology seems ever expanding. The tech sector is increasingly focused on making our homes, autos and cities smarter. No surprise then that technology is currently one of the largest themes within our portfolios. We’ve identified a number of secular growth companies that have meaningful exposure to these trends, and believe that companies exposed to powerful secular trends can grow earnings faster and sustain earnings growth longer than the average company.

E-commerce and Mobile

E-commerce continues to take share from brick-and-mortar formats. As commerce increasingly shifts to the Internet, online retailers are experiencing exceptional growth rates, with the growth of mobile contributing to this shift. In 2017, mobile made up slightly more than a third of total US e-commerce sales and is predicted to grow to more than one half of US e-commerce sales by 2021. Furthermore, the commoditization and proliferation of smartphones and tablets facilitate greater online access in underpenetrated markets. Yet, the fast-growing, global e-commerce market still only represents 10% of total worldwide retail sales.

The disruptive transformation of retail creates opportunities for companies with scale and early-mover advantages. Leading the way is Amazon.com, the largest e-commerce company globally. Amazon began as an online seller of books, first disrupting the bricks-and-mortar bookstore industry before expanding to other retail categories—ultimately transforming all of retail as it became a retailer of “everything.” In 2017, the online retailer accounted for 4% of retail sales and 44% of e-commerce sales in the US. Amazon is now seeking to disrupt the grocery business—taking a big step with its acquisition of premium grocer Whole Foods. And it’s not just retail that Amazon has its sights set on. It is now making forays into finance and health care—launching a lending service to small businesses and collaborating with J.P. Morgan and Berkshire Hathaway to create a firm that will look to the use of technology to simplify the delivery and reduce the cost of US health care.

Opportunities around e-commerce also extend to companies across the value chain, including shipping and logistics, benefiting companies such as Deutsche Post. Deutsche Post is Europe’s largest postal service provider. The company offers standard mail delivery, international express parcel delivery through its DHL business, as well as supply-chain management. The DHL division operates in an oligopoly, with top-three players DHL, UPS and FedEx controlling roughly 84% of the market. We believe Deutsche Post’s advantageous positioning in emerging markets and strength in its Express segment will serve as key drivers of sustainable growth over the coming years.

Digital Payments

The secular growth in e-commerce and mobile transactions is supported by advances in online payment processing and electronic payment technology. Together these dynamics have driven an accelerated shift toward digital payments.

Payments companies that are well positioned for these trends are experiencing rapid organic growth. Wirecard, a Germany-based global payment processing company, is one example, in our view. Wirecard operates a
technology-agnostic platform enabling merchants to accept and process debit and credit transactions on multiple formats—online and on mobile and in store. The company’s greatest advantage is its unique vertical integration as both a credit account issuer with a bank license as well as a technology company that provides payment processing and numerous merchant support services, including fraud prevention and assistance in cross-border transactions. Its full-service platform offers convenience to its business customers while allowing the company to participate in the revenue opportunity across the financial supply chain. Given the secular shift from paper transactions to cashless forms of payment and growth in online and mobile transactions, we believe Wirecard has a long runway for growth.

Internet of things (IoT)

The term Internet of things (IoT) encompasses the array of network-connected devices that can communicate data. The installed base of connected devices across both consumer and business applications (e.g., mobile, servers, PCs, video game consoles, smart home, wearables and autos) is projected to be 34 billion by 2020, up from 10 billion in 2015. This growth is only possible due to the huge advances over time in broadband networks and semiconductors. Correspondingly, brisk growth in the IoT is a key driver of steeply rising semiconductor demand.

Semiconductor equipment companies that are able to provide solutions meeting industry demand for faster, smaller and lighter chips should be among the biggest beneficiaries from growth from the IoT. ASM International, a Netherlands-based supplier of semiconductor equipment, is one such company, in our view. Within wafer processing, ASM focuses on deposition equipment, which involves tools for coating an ultra-thin film of chemicals—a few atomic layers at a time—onto the silicon wafer. ASM is the market-share leader in single-wafer atomic layer deposition (ALD), a technology seeing swift adoption in semiconductor manufacturing as ALD tools are required for increasingly complex chip designs—smaller, more difficult node architectures. While overall deposition spending has been stable as a percentage of total semi-cap equipment spending, ALD has increased its penetration within deposition from 2% in 2010 to 9% in 2016, resulting in the ALD market growing at a 29% cumulative annual rate over the same period.

Big Data

Our increasingly connected world is creating exponential growth in data. It’s estimated that the digital universe of data is doubling roughly every two years. “Big data” refers to the ability to store, process, analyze, consume and act on data sets that are too large or too complex for traditional data processing applications. In order to extract value from data, raw storage and processing power is essential.

Notable holdings in our big data theme are InterXion, a European data center company, and Amazon, which provides on-demand cloud computing platforms through its Amazon Web Services (AWS) subsidiary. Rising global data traffic levels (fueled by the IoT), growth in cloud computing, and the cost-saving advantages afforded by outsourcing data-storage needs are driving demand for data center colocation services. InterXion’s first-mover advantage and scale provide high barriers to entry for competitors. Colocation services also provide high recurring revenue with the majority of bookings originating from existing customers.

Similar to the way it disrupted the retail sector, Amazon is now leading the global migration of data storage to the cloud with significant first-mover advantages. The transition is still in its early stages, but progressing rapidly. Notwithstanding the strong revenue growth potential, it’s also a highly profitable business for Amazon. While only 10% of Amazon’s revenues, AWS represents all of Amazon’s operating income. In addition to the significant growth opportunity in the high-margin cloud business, customer switching costs are high, yielding a more stable and predictable earnings stream.

Our thematic approach to investing is a key element of our investment process. Our team identifies long-term secular growth trends with the objective of investing in companies that have meaningful exposure to these trends. Our fundamental analysis focuses on those industry leaders with attractive growth and valuation characteristics that we believe will be the long-term beneficiaries of these structural changes and/or trends. Amazon, Deutsche Post, Wirecard, ASM International and InterXion are just a few examples of companies we believe have sustainable growth characteristics that are benefiting from secular tailwinds from the disruptive innovations occurring within our identified themes—e-commerce, mobile, digital payments, the IoT and big data.
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.

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For the purpose of determining the Funds’ holdings, securities of the same issuer are aggregated to determine the weight in the Funds. Securities named in the Commentary; but not listed here are not held in the Fund(s) as of the date of this report. The holdings mentioned above comprised the following percentages of the Funds’ total net assets (including all share classes) as of 31 Mar 2018: Artisan International Fund—Amazon.com Inc 1.2%; Deutsche Post AG 3.0%; Wirecard AG 3.8%; Artisan Global Equity Fund—Amazon.com Inc 1.3%; Wirecard AG 4.0%; ASM International NV 1.9%; InterXion Holding NV 2.9%; Artisan International Small Cap Fund—Wirecard AG 4.5%; InterXion Holding NV 6.6%.

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