

# Artisan Non-U.S. Value Strategy

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 <sup>1</sup>	P/E <sup>1</sup>	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. <sup>1</sup>Based on the team's estimates of normalized earnings. Portfolio subcategories determined by the investment team. Based on a representative account in the Artisan Non-U.S. Value Strategy.

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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**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- 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. These risks, among others, are further described in Artisan Partners Form ADV, which is available upon request.

Unless otherwise indicated, the Artisan Strategy characteristics relate to that of an investment composite or a representative account managed within a composite. It is intended to provide a general illustration of the investment strategy and considerations used by Artisan Partners in managing that strategy. Individual accounts may differ, at times significantly, from the reference data shown due to varying account restrictions, fees and expenses, and since-inception time periods, among others. Where applicable, this information is supplemental to, and not to be construed with, a current or prospective client's investment account information.

For the purpose of determining the portfolio's holdings, securities of the same issuer are aggregated to determine the weight in the Strategy. The discussion of portfolio holdings does not constitute a recommendation of any individual security. These holdings comprise the following percentages of a representative account within the Composite's total net assets as of 30 Sep 2018: Arch Capital Group Ltd 4.0%. Securities referenced may not represent all of the securities in the portfolio. If certain information is unavailable for a particular security Artisan Partners may use data from a related security to calculate portfolio characteristics. All information in this report is as of the date shown in the upper right-hand corner unless otherwise indicated and is subject to change without notice. Totals may not sum due to rounding.

This summary represents the views of the portfolio manager as of 27 Dec 2018. Those views and portfolio holdings are subject to change and Artisan Partners disclaims any obligation to advise investors of such changes. The discussion of portfolio holdings does not constitute a recommendation of any individual security.

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 when calculating 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.

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