Antero Peak Strategy: 3-Year Review

A Discussion with Antero Peak Group portfolio manager Christopher Smith

PORTFOLIO MANAGER
Viewpoints

October 2020

Christopher Smith
Portfolio Manager

17 Years Investment Experience

Q: Three years ago, you joined Artisan to start the Antero Peak Group. Can you talk about your decision to partner with Artisan?

Prior to joining Artisan, I was focused on answering two questions. First, what is my product vision? I really wanted to offer a product that delivers consistent value to investors. Second, how do I garner the resources to execute on this vision? Artisan was a perfect partner for me because it gave me the freedom and autonomy to structure the investment strategy in the way I wanted, while also providing the resources required to best position the team for success. These financial and reputational resources were well beyond what would be available to a typical startup investment firm. I'm very proud of our portfolio's strong results over these first three-plus years, and my partnership with Artisan has been a big contributor to this success; I am very grateful.

Q: Why does the structure of the team work well for you and your process?

I currently have a growing investment team of six research analysts, a data analyst and a risk manager and head trader. I've learned the best thing I can do is surround myself with the right people with diverse and unique backgrounds. Although our team has experiences ranging from the likes of Shumway Capital, Point 72, Stanley Druckenmiller's Duquesne Family Office, and Paul Allen's Vulcan Inc., the critical mass of the group has worked together since our launch, with several of us having worked together for 15 years. Aligned from an incentive perspective, our team members bring different skill sets to our collaborative and interactive research process. We collectively spend hours researching and identifying themes across verticals. The transparent culture across coverage universes allows us to identify idiosyncratic opportunities, ensuring greater diversification and balance within the portfolio.

Q: Talk about your evolution as an investor over the years.

I've been fortunate to learn from many industry giants throughout my investment career—each of whom has helped shape the process we implement today. In my early days, I worked for Michael Karsch at Karsch Capital, who ingrained in me the industry-over-company approach. Being industry-first is at the core of our idea generation process. We find situations where industry conditions are inflecting and then apply our disciplined, repeatable, bottom-up process to pick individual stocks that we believe will benefit from these changes. We spend a lot of time on our industry models—we cover industries just like we do companies—and this has served me well in helping direct time and resources to find new themes and individual stock ideas.

In reflection, I've probably evolved most over the years as it relates to risk management. I was trained to think about risk management purely from a fundamental perspective—that is, viewing a business's fundamental risk as a proxy for the stock risk. I believe this approach is still useful today but not sufficient to manage risk. As such, I have progressively developed my own risk-management process which includes elements of my training as well as data analytics tools for a more complete, robust and effective risk-management toolset.

Q: How you think about thematic investing, and in what areas are you currently finding thematic inflections?

At its core, thematic investing is about looking for industries undergoing some type of inflection that is underpinned by any of a number of secular, structural or cyclical forces. Inflections may be caused by technological advancements or changes in supply/demand dynamics, consumer behavior, regulation or business models. We search for inflections that may lead to accelerated growth over several years, and this acceleration allows us to have a differentiated perspective on an industry. If an industry grows consistently every year, which is typically what investors expect, it's hard for us to develop a differentiated view on a company's earnings power and return on capital. We believe inflections are often mis-modeled and misunderstood—as a result, we can form an above-consensus view that we believe can lead to powerful re-ratings of industries and companies, as well as upside.

It's safe to say 2020 has been a year of change and truly unexpected developments. However, we've been excited to find companies that have changed the nature of their business as a result of COVID-19. The pandemic has accelerated some of the high-quality business models to fundamentally higher levels than we would've ever expected to see—which, combined with fiscal and monetary stimulus, is providing opportunities for US companies with global reach. The significant performance dispersion among equities has demonstrated the value of good stock-picking and risk management.

Q: What core beliefs drive your investment philosophy?

We believe finding inflection points combined with taking a proactive approach to risk management will afford us the highest probability of investment success in the years to come. The most alpha potential lies in stocks differentiated across two key metrics: company earnings power and the multiple paid on a business. As a result, we look to develop a differentiated perspective on these metrics in companies and industries exposed to broader inflections. The combination of fundamental earnings power differentiation and accelerating ROIC provides a strong foundation for valuation upside and alpha potential.

Q: What distinguishes your investment process and approach from your peers'?

Our steadfast focus on process over outcome separates us from peers. Our team's culture revolves around objectivity and transparency, so we're always "reflecting with a purpose" to see what insights we can glean from our experiences. Because our process is designed to be disciplined and repeatable, our culture has naturally evolved to prize accountability and continual improvement. We know mistakes will happen, but we also understand the value of introspection and learning from missteps. By examining our decision making, we think over time we can weed out biases while increasing our research productivity to maximize our time and probability of finding alpha-creating opportunities.

Q: What do you and the team do particularly well?

Although we believe our thematic and company-specific fundamental analysis is the primary driver of performance, our integrated portfolio construction and risk management processes are central to how we manage capital. We leverage proprietary technology and tools including a portfolio optimizer, factor risk model, and visualizations that alert us to changes in our investment thesis. These tools help us remove subjectivity from the investment process and help allocate capital more efficiently. The result is a portfolio that seeks to deliver consistent returns irrespective of market conditions. Our goal is to outperform the S&P 500® Index, net of fees, over a full market cycle with less volatility than the index. Since the portfolio's launch, we've successfully met this goal, generating returns that have exceeded the S&P 500® Index's over all rolling 12-month periods while capturing 121% of the market's gains and just 66% of the downside through 30 Sep 2020.*

*Up/down capture ratios are based on monthly returns gross of fees for the composite since inception.

Antero Peak Strategy

Investment Results

(%) as of 30 Sep 2020	QTD	YTD	1 Yr	3 Yr	Inception
Composite—Gross	10.09	14.02	22.92	23.56	26.15
Composite—Net	9.82	13.17	21.71	22.36	24.92
S&P 500® Index	8.93	5.57	15.15	12.27	12.78

Annual Returns

(% USD) 12 months ended 30 September	2018	2019	2020
Composite—Gross	35.10	13.67	22.92

Source: Artisan Partners/S&P. Returns for periods less than one year are not annualized.

Returns for periods less than one year are not annualized. Past performance does not guarantee and is not a reliable indicator of future results. Current performance may be lower or higher than the performance shown. Composite performance has been presented in both gross and net of investment management fees. The strategy's investments in initial public offerings (IPOs) made a material contribution to performance. IPO investments may contribute significantly to a small portfolio's return, an effect that will generally decrease as assets grow. IPO investments may be unavailable in the future.

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Investment Risks: Current and future portfolio holdings are subject to risk. A non-diversified portfolio may invest a larger portion of assets in securities of a smaller number of issuers and performance of a single issuer may affect overall portfolio performance greater than in a diversified portfolio. The portfolio's use of derivative instruments may create additional leverage and involve risks different from, or greater than, the risks associated with investing in more traditional investments. High portfolio turnover may adversely affect returns due to increased transaction costs and creation of additional tax consequences. 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. 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. 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. These risks, among others, are further described in Artisan Partners Form ADV, which is available upon request.

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Net-of-fees composite returns were calculated using the highest model investment advisory fees applicable to portfolios within the composite. Fees may be higher for certain pooled vehicles and the composite may include accounts with performance-based fees. All performance results are net of commissions and transaction costs, and have been presented gross and net of investment advisory fees. Dividend income is recorded net of foreign withholding taxes on ex-dividend date or as soon after the ex-dividend date as the information becomes available to Artisan Partners. Interest income is recorded on the accrual basis. Performance results for the Index include reinvested dividends and are presented net of foreign withholding taxes but, unlike the portfolio's returns, do not reflect the payment of sales commissions or other expenses incurred in the purchase or sale of the securities included in the indices.

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Alpha measures the performance of an investment portfolio against a market index. **Return on Invested Capital (ROIC)** is a measure of how well a company generates cash flow relative to capital invested in the business. **Sharpe Ratio** is a measure of risk-adjusted return—it is the average return earned in excess of the risk-free rate per unit of volatility or total risk. **Downside Capture Ratio** measures a manager's performance in down markets relative to a particular benchmark. A down market is one in which the market's quarterly (or monthly) return is less than zero. **Upside Capture Ratio** measures a manager's performance in up markets relative to a particular benchmark. An up market is one in which the market's quarterly (or monthly) return is greater than or equal to zero. For example, a ratio of 50% means that the portfolio's value increased half as much as its benchmark index during up markets.

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