Artisan Global Discovery Strategy 2-Year Anniversary

Artisan Partners Growth Team

PORTFOLIO MANAGER

Viewpoints

August 2019

Artisan Global Discovery Strategy celebrated its two-year anniversary on 1 September 2019. Lead Portfolio Manager Jason White discusses the portfolio's second year.

Jason L. White, CFA
Portfolio Manager

19 Years Investment Experience

Could you discuss why the team decided to launch Artisan Global Discovery Strategy?

Jason: In a way, Artisan Global Discovery Strategy brings the team full circle from where it first started over 20 years ago with Artisan U.S. Mid-Cap Growth Strategy. We've described Global Discovery as the one we would have started with if we could have in the sense that we're applying our "mid cap as a state of mind" philosophy to a highly unconstrained, global universe with greater size freedom than the other portfolios the team manages.

What does the team mean by "mid cap is a state of mind"?

Jason: Since the team's inception, we have found mid caps to be an investing sweet spot—a compelling intersection of quality, competitively advantaged businesses with still-ample growth runways. This is a belief that has been embedded in the team's DNA from day one, and we apply it across the portfolios that we manage. In Global Discovery, we have the most unconstrained opportunity of any of our portfolios to pursue companies which we believe reflect it, regardless of their domicile or their current market capitalization.

What distinguishes Artisan Global Discovery Strategy from Artisan U.S. Mid-Cap Growth Strategy and Artisan Global Opportunities Strategy?

Jason: I think you can sum it up thusly: the Artisan Global Discovery Strategy is more global than the Artisan U.S. Mid-Cap Strategy and more mid-cap focused than the Artisan Global Opportunities Strategy. In other words, in relationship to the U.S. Mid-Cap Growth Strategy, while we seek companies that exemplify the mid-cap franchise traits we are attracted to, we intend to hold those companies through the duration of their profit cycles—even if that means their market capitalizations reach points beyond which we would normally hold them in the U.S. Mid-Cap Growth Strategy. In contrast to the Global Opportunities Strategy, we tend to initiate our investing campaigns in smaller companies—which should over time allow us to capture more of the profit cycle than we are typically able to in portfolios which have firmer capitalization thresholds.

Does the team consider regional exposure to any meaningful degree in managing the portfolio?

Jason: While we acknowledge the macroeconomic environment in any given country can impact securities domiciled there in a variety of ways—both positive and negative—we prefer to evaluate those factors through a bottom-up lens, incorporating them into our expectations of future results. Said another way, we don't want to determine our regional exposure from a top-down perspective because that would likely preclude franchises that might be attractive candidates for a variety of reasons—i.e., maybe they're domiciled in a challenged country but they generate a majority of their revenues abroad. Or maybe they're well-positioned to capitalize on a particular macro challenge that might impair other companies also domiciled there. And so on.

This results in a portfolio that is global in nature but largely agnostic about the composition of its regional exposure—at times, it may have above-benchmark exposure to non-US holdings; at others, it may have a higher percentage of US exposure. But as benchmark-agnostic investors, we're much more focused on finding high-quality franchises that are on the cusp of or in the early innings of a compelling profit cycle. Over the course of our two decades-plus managing portfolios, we've found that such opportunities can and do occur in a wide variety of markets—hence our desire to launch an unconstrained portfolio that allows us to pursue such opportunities regardless of their domicile.

Could you give us an example of a company undergoing a profit cycle that you find particularly interesting right now?

Jason: One example we especially like right now is Varta. Varta is the world's leading manufacturer of microbatteries for hearing aids, wearable electronics and industrial applications. We initiated our campaign in mid-2018 on the strength of the growth runway in the wearable device business, which has become more important as smartphones have matured and electronics producers look for new ways to drive sales growth. Varta is one of the only producers capable of serving this market as these batteries have complex wireless connectivity needs that require high energy density in small form factors, with high reliability and fire-safety requirements. Varta also has expertise in high-volume manufacturing and decades of experience shrinking batteries via its proprietary winding equipment—giving it a further competitive advantage over peers and customers that use the batteries in their end products. Varta has also made significant progress toward expanding production capacity to meet demand. We believe we are still in the early innings of the trend toward ever-smaller batteries for wearable devices and other products and Varta's profitability will improve meaningfully over the next several years.

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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 2019: Artisan Global Discovery—Varta AG 3.4%. Portfolio holdings are subject to change without notice and are not intended as recommendations of individual securities.

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