

Maintaining a Long-Term Orientation Amid Heightened Volatility

Artisan Non-U.S. Small-Mid Growth Strategy

PORTFOLIO MANAGER
Viewpoints

April 2020

Amid significant market volatility due to the COVID-19 pandemic, we remain steadfast in our commitment to our investment philosophy. With a foundation in long-term structural tailwinds, resilient businesses and strong operators, our approach is designed for not only good times but challenging ones as well. Acknowledging the unprecedented nature of these circumstances and the uncertainty of a global health crisis, we thought a few words about our investment approach, portfolio alignment and how the investment team is spending its time would be appropriate.

We are cognizant that the current crisis is causing dynamic macro-economic implications as well as significant short-term market fluctuations, but these factors do not change our investment philosophy nor our analytical process. Our approach is distinctly focused on idiosyncratically driven investments and a long-term orientation. We maintain a high bar on business quality, which includes adept management teams with steady hands through times of turbulence. In this environment, the effort we put into developing relationships and confidence in management teams via consistent strategic conversation should pay off. Our calendars remain filled with management team discussions, focused on understanding the fundamental impact on business models and end markets. We are using these discussions to think critically about structural implications, if any, to the long-term prospects for these businesses. One must think carefully about business value and how much of it is determined by any single three- to six-month period. Without losing focus on the micro, our collection of small businesses with the potential to one day be large should be well equipped to endure.

Importantly, from a business continuity standpoint, our New York-based investment team has taken the necessary precautions to ensure the safety and well-being of its professionals. Travel and in-person meetings have been temporarily replaced with conference calls and video conferencing. Given the amount of outbound travel in our research process, the team is accustomed to working effectively from remote locations. We are confident we are upholding the necessary standards to maintain a safe environment and operate with minimal disruption. To date, there has been no material impact from the pandemic on our team or critical functions.

In general, our portfolio benefits from structural tailwinds, minimal cyclicalty and the avoidance of high debt or leverage levels. The businesses we find most attractive boast strong balance sheets and the ability to self-finance growth, which may enable them to play offense during challenging economic environments with the goal of emerging stronger on the other side. We believe our short list of our more cyclically exposed holdings each possess enough idiosyncratic drivers to withstand or even overwhelm a potential longer-term downturn. Likewise, we have no direct ownership in energy or banks and limited exposure to retail—a few of the hardest hit segments. Any holdings with exposure to these areas are front and center in our mind as we continue evaluating their financial strength and liquidity.

In the face of increased volatility, when our long-term thesis is unshaken, we will look to be opportunistic by selectively adding to positions that are disproportionately discounted. We believe this is an important component of our ability to deliver attractive long-term results for investors and it has begun showing results as the market attempts to better discern fundamentals. There is also no shortage of new investment ideas to pursue. We have been able to accelerate the timeline for position-building in recently acquired holdings and



Rezo Kanovich
Portfolio Manager

21 Years Investment
Experience



are returning to research in businesses where valuation was previously prohibitive. New investments include names in cloud SAAS, cybersecurity and a few innovative offerings in consumer discretionary and health care. As those who know us well have come to expect, all portfolio activity will be viewed through our same bottom-up lens, a contrarian approach to entry points and with a multi-year investment in mind.

We believe our risk-aware approach to security selection and portfolio construction helps position us well for downside protection relative to the benchmark. Our approach to risk management has always centered around the resiliency of the individual business and a fervent commitment to diversification. Individual position sizing considers both valuation opportunity and risk profile, while portfolio diversification is reflected in breadth of holdings, industry and sector exposures, and variety in portfolio themes. A risk-aware approach to individual business selection as well as portfolio construction is a tenet we believe should continue serving us well in these times of heightened uncertainty.

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