Why Global Discovery?

Artisan Partners Growth Team

PORTFOLIO MANAGER
Viewpoints

November 2017

What led you to launch your newest strategy, Artisan Global Discovery?

Jason: The Global Discovery Strategy allows us to build the portfolio that, in many ways, we would have started with 20 years ago at the team's founding if we had had the capability. It follows the same philosophy and process our team has followed since its inception, and our aim in Global Discovery, as with all the portfolios we manage, is to identify quality companies on the cusp of a compelling profit cycle based on catalysts we can understand, that are selling at a discount to our estimate of their private market values.

I believe Global Discovery is best thought of as a global, unconstrained version of our team's founding product, the Artisan U.S. Mid-Cap Growth Strategy, which celebrated its 20-year anniversary in 2017. We've always believed the mid-cap space represents a compelling intersection of quality, competitively advantaged businesses with still-ample growth runways. We often say "mid cap is a state of mind"—a belief that is embedded in the team's DNA—and Global Discovery gives us more freedom to find those companies that fit the criteria that align with that mindset.

The Global Discovery Strategy also builds on our 10 years' experience investing globally—we celebrated 10 years managing the Artisan Global Opportunities Strategy in 2017—and we had been evolving our global research platform since well before launching that portfolio.

How does Artisan Global Discovery Strategy differ from the Global Opportunities and U.S. Mid-Cap Growth Strategies on a tactical level?

Jason: We believe Global Discovery will differ from the U.S. Mid-Cap Growth Strategy by virtue of its global focus and unconstrained nature—meaning while we will seek companies that exemplify the mid-cap franchises we are attracted to, we intend to hold those companies through the duration of their profit cycle, even if that means their capitalizations reach points beyond which we would normally sell them in the U.S. Mid-Cap Growth Strategy. In terms of how it varies from Global Opportunities, the Global Discovery Strategy will be more focused on mid-cap companies at the time of initial investment.

An example of the type of company we believe is a good fit for the new Global Discovery portfolio is Techtronic, which is the global leader in power tools with well-established and fast-growing brands, including Milwaukee, Ryobi and AEG. Techtronic is capitalizing on first-mover advantages in the ongoing evolution toward cordless, lithium ion battery-operated power tools to drive what we find a compelling profit cycle. Key to successfully capitalizing on the rising popularity of cordless tools is leveraging a company's network effect to lock in new and existing users within its lithium ion battery ecosystem, since the batteries cannot be used interchangeably among brands. Techtronic has aggressively expanded its product offerings over the last several years in order to accordingly lock in its user base, expanding from primarily drilling tools into non-drilling tools, with applications beyond housing that include infrastructure, commercial and industrial usage. Helmed by a capable management team and with a powerful, but early innings, secular trend, we believe Techtronic is attractively positioned for the period ahead. As a foreign-domiciled company that currently sits in the sweet spot of what most consider mid cap, Techtronic is the type of franchise that would previously not have been a natural fit in any of our strategies—but which we believe is a compelling opportunity for Global Discovery.

Portfolio Managers (L-R):

Jason L. White, CFA
Portfolio Manager
18 Years Investment Experience

James D. Hamel, CFA
Portfolio Manager
21 Years Investment Experience

Craigh A. Cepukenas, CFA
Portfolio Manager
29 Years Investment Experience

Matthew H. Kamm, CFA
Portfolio Manager
18 Years Investment Experience

What do you mean by "mid cap is a state of mind"?

Matt: This notion that mid cap is a state of mind was really the genesis of the team in many ways. What we mean is, over the years we've learned that there's a point—and it differs from company to company and industry to industry—at which businesses are mature enough to be high-quality franchises with solid competitive advantages, to be financially sound with the capacity to generate cash flow to fund future growth and to have experienced, savvy management teams.

But we also want to find companies at an inflection point—where they are on the cusp of an interesting profit cycle based on a compelling internal or external catalyst or some combination thereof. Perhaps because they have invested ahead of the curve, and are poised to reap the benefit of those growth-related investments. Or they have developed some proprietary product or service that is difficult to replicate. Or they have commanding market share giving them attractive scale advantages and/or a defensible brand. In other words, they've outgrown some of the challenges that come with being less mature, but they're not yet so mature that they've outgrown their innovative profit cycle potential.

Companies of this sort needn't be a specific market-cap size, however. They can be found up and down the market-cap spectrum, which is why we think of it more as a state of mind. Over the years, our research platform has evolved to have the capability to identify these kinds of companies, regardless of current size or where they are located geographically.

For a team that started 20 years ago investing primarily in US mid-cap stocks, can you talk about how you evolved a fully global research platform?

Jim: Part of our research process involves talking to the suppliers, customers and competitors of the companies we are interested in. Over the years, as global markets have become increasingly interwoven, we found many of those conversations were leading us outside the US. And in doing so, we were increasingly finding companies that were good fits as investment candidates based on our philosophy and process. We were finding in our quest to find growth wherever it occurs that growth knows no domicile.

That evolution of course led to a couple of shifts—one being the team's expansion and evolution in order to broaden our perspective. Over the years, we've brought on several talented analysts who have diversified perspectives with backgrounds in Brazil, India and China in order to better align our research capability with the increasingly globalized nature of markets. The result of this evolution has been a research team that we believe is highly qualified and capable at identifying good investment candidates across the world and capitalization spectrums.

These developments led naturally to the launch of the Global Opportunities Strategy, which gave us greater degrees of freedom in an attempt to capitalize on the research we were doing anyway to support the U.S. Small-Cap Growth and U.S. Mid-Cap Growth Strategies.

Are there other examples of the types of franchises you're finding for the Global Discovery Strategy?

Jason: In addition to Techtronic, another holding we're currently excited about in the portfolio is Sartorius, a Germany-based leading international laboratory and process technology provider for the biotech, pharmaceutical and food industries. Its innovative products and services help customers implement complex biomanufacturing and laboratory processes. From a competitive standpoint, we view Sartorius as well positioned to capitalize on several durable, long-term trends, given its already high market share—including the ongoing shifts toward biologic drugs and single-use technology (SUT). In terms of biologic drug production, Sartorius' products are critical components of the drug manufacturing processes. The cost of switching to another supplier is high and time consuming, helping insulate Sartorius' business from competitors. SUT, or the use of bags, filters and membranes instead of multi-use stainless steel containers, offers companies reduced cleaning and validations costs, lower contamination risks and allows for the production of smaller amounts of drugs. We believe the ongoing shift toward biosimilar drugs will drive manufacturers toward SUT adoption as it provides increased flexibility and lower costs—creating an attractive recurring revenue stream for Sartorius.

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