Artisan International Value Fund

QUARTERLY
Commentary

Investor Class: ARTKX | Advisor Class: APDKX | Institutional Class: APHKX

As of 31 December 2020

Investment Process

We seek to invest in high-quality, undervalued companies with strong balance sheets and shareholder-oriented management teams.

Undervaluation

Determining the intrinsic value of a business is the heart of our research process. Intrinsic value represents the amount that a buyer would pay to own a company's future cash flows. We seek to invest at a significant discount to our estimate of the intrinsic value of a business.

Business Quality

We seek to invest in companies with histories of generating strong free cash flow, improving returns on capital and strong competitive positions in their industries.

Financial Strength

We believe that investing in companies with strong balance sheets helps to reduce the potential for capital risk and provides company management the ability to build value when attractive opportunities are available.

Shareholder-Oriented Management

Our research process attempts to identify management teams with a history of building value for shareholders.

Team Overview

Our team has worked together for many years and has implemented a consistent and disciplined investment process. Our team is organized by geographic regions, but within those regions we are generalists who look across all industries. We believe this model enables our analysts to become broad thinkers and gain critical insight across all economic sectors.

Portfolio Management

N. David Samra
Portfolio Manager (Lead)

Ian P. McGonigle, CFA
Co-Portfolio Manager

Joseph Vari
Co-Portfolio Manager

Investment Results (%)

As of 31 December 2020	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception
			Average Annual Total Returns				
Investor Class: ARTKX	**21.77**	**8.52**	**8.52**	**4.30**	**8.19**	**7.98**	**11.83**
Advisor Class: APDKX	**21.82**	**8.70**	**8.70**	**4.46**	**8.35**	**8.07**	**11.89**
Institutional Class: APHKX	**21.84**	**8.81**	**8.81**	**4.56**	**8.44**	**8.21**	**12.02**
MSCI EAFE Index	16.05	7.82	7.82	4.28	7.45	5.51	7.73
MSCI All Country World ex USA Index	17.01	10.65	10.65	4.88	8.93	4.92	8.37

Source: Artisan Partners/MSCI. Returns for periods less than one year are not annualized. Class inception: Investor (23 September 2002); Advisor (1 April 2015); Institutional (1 October 2006). For the period prior to inception, each of Advisor Class and Institutional Class's performance is the Investor Class's return for that period ("Linked Performance"). Linked Performance has not been restated to reflect expenses of the Advisor or Institutional Class and each share's respective returns during that period would be different if such expenses were reflected.

Expense Ratios	ARTKX	APDKX	APHKX
Annual Report 30 Sep 2020[1,2]	1.19	1.05	0.96
Prospectus 30 Sep 2019[2]	1.26	1.12	1.02

[1]Excludes Acquired Fund Fees & Expenses as described in the prospectus. [2]See prospectus for further details.

Past performance does not guarantee and is not a reliable indicator of future results. Investment returns and principal values will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than that shown. Call 800.344.1770 for current to most recent month-end performance.

Market Discussion

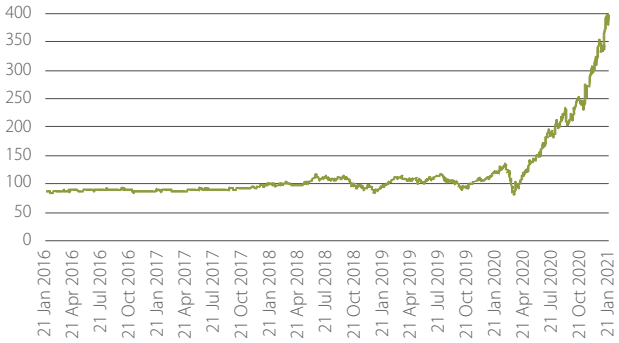
It is well-known that Americans spend much more for prescription drugs than people in other parts of the world. That extra spending is worthwhile, however, for both health care and for—what is now obvious—economic reasons. Equity markets boomed after November 9, when Pfizer and BioNTech announced positive Phase III results for the first COVID-19 vaccine.

The reaction was swift and global, with the S&P 500® Index notching a 12% return in the fourth quarter and international developed markets jumping 16%. Note about 5% of that international return was a result of a weaker dollar as the euro, British pound, Japanese yen and Swiss franc all appreciated against the US dollar. Emerging markets boomed, up 20% in dollar terms, given the relative sensitivity to improved economic outcomes.

For the year, the MSCI AC World Index was up over about 15%. It is notable—even remarkable—that stock markets have appreciated significantly amid a significant economic downturn, meaning aggregate market values are running well ahead of aggregate earnings growth (or in 2020's case, an earnings decline). The vaccines, if they are effective at broadly quashing the pandemic, should help restore earnings, but the market is up, not restored, making stocks more expensive today than at the end of 2019. Remember, 2020's strong market performance follows 2019's 20% up year, which was already well ahead of aggregate earnings growth.

Success with the vaccines is crucial, of course, but two other key factors are driving stocks higher: excessive liquidity and investor enthusiasm. Certain market sectors, mainly technology and health care, are exhibiting bubble-like behavior. Investors are chasing a steady stream of initial public offerings, blind pool vehicles called special purpose acquisition companies are all the rage, and popular momentum stocks shoot higher on bits of news rather than actual earnings. Many of the best performing stocks trade at levels relative to earnings that look dangerous to prudent value investors—if, that is, these stocks have earnings at all. As you look at Exhibit 1, you might conclude, as we have, that for some parts of the market, the future is now.

Exhibit 1: Goldman Sachs Non-Profitable Technology Index



Source: Bloomberg as of 21 Jan 2021. The GS Non-Profitable Tech basket consists of non-profitable US-listed companies in innovative industries. Tech is defined quite broadly to include new economy companies across GICS industry groupings. The basket is optimized for liquidity with no name initially weighted greater than 4.65%. **Past performance is not indicative of future results.**

Portfolio Discussion

Returns were broad-based during the quarter. Observationally, there were significant price increases in companies with exposure to a vaccine-driven earnings rebound. Travel stocks such as Ryanair (48%), energy stocks such as Schlumberger (41%), and industrials such as CNH (63%) are good examples. That said, the two companies whose shares had the largest positive impact on performance during the quarter were both in technology: Samsung Electronics and Baidu. Compass Group, which will also benefit from an effective vaccine, was the third-largest contributor to investment performance. Only one security declined meaningfully during the quarter: Alibaba.

Samsung Electronics, a Korean technology company, is the portfolio's largest holding and had the largest positive impact on performance for both the fourth quarter (up 51%) and the year (up 61%). Samsung at its core is a manufacturing powerhouse. The company develops, manufactures and sells technology hardware including memory semiconductors, logic semiconductors, handsets, displays and other consumer electronics. Samsung makes most of its profits manufacturing memory semiconductors. The key competitive advantages in the manufacture of these products include the need to be the leader in rapidly evolving technology, operate at massive scale, have access to significant capital and deliver manufacturing excellence. Samsung has displayed these characteristics over many decades and continues to be the largest manufacturer operating at the leading edge of technology, which leads to higher profits and better access to capital. Occasionally the stock market looks past these somewhat obvious characteristics and focuses on the short-term cyclical fluctuations in the supply/demand balance for memory semiconductors. Samsung is coming out of a downturn in the cycle for memory semiconductors, and the market has begun to discount an underlying improvement in the company's profits.

Samsung's operating earnings peaked in 2018 when the company earned what we viewed at the time as excessively strong profits of just under KRW 45 trillion in its semiconductor division. That figure fell to

KRW 14 trillion in 2019, making the market nervous and creating an attractive entry point. We forecast semiconductor profits of KRW 20 trillion for 2020 and, in a couple years, the ability to generate closer to KRW 30 trillion of normalized profits (still well below prior peak profits of KRW 45 trillion, despite significant volume growth over the last two years). At the same time, the company has strong growth potential in several of its other businesses, including display manufacturing, foundry and potentially some earnings growth in handsets. Overall, 2020 looks like a year in which Samsung can generate operating profits above KRW 35 trillion, which should improve to a more normal level of at least KRW 45 trillion over the next few years. Samsung has other valuable assets in addition to its operating businesses, including cash and holdings of securities in other Korean companies. Those assets are worth over KRW 120 trillion ($109 billion). At the end of 2019, netting out the cash, Samsung's after-tax earnings power was valued at about 10.5X depressed earnings and 7.5X normalized earnings. That struck us as too low—way too low. The company's market position, strong balance sheet and track record of value creation—and the relatively high valuations for most other companies in the market—gave us conviction to make Samsung our largest investment. Now that the share price has increased, the valuation on depressed earnings is 17.0X, while the valuation on normalized earnings is closer to 13.0X. That's clearly not as good but is still not expensive, especially as business trends are not just improving but accelerating. Which is why Samsung remains the portfolio's largest holding.

The second-largest contributor to returns in the fourth quarter was Baidu, which appreciated 71%. Baidu is a Chinese technology company that makes most of its profits in its core search engine business. Unlike Samsung, this company does not have obvious positive characteristics that most investors chose to ignore. Though the company started out with significant competitive advantages, mainly because the Chinese government barred Google from operating there, over time, Baidu's leadership ceded this dominant position to other Internet giants like Alibaba and Tencent. In addition, changing government regulations, the existence of a robust venture capital market in China, and a fast-paced shift to mobile left the company behind. We have been investors in Baidu since 2012 with varying position sizes based on rapid changes in valuation and competitive dynamics. Though the return on this investment has been more than adequate, the company has clearly failed to live up to our internal expectations.

In 2019, the company faced significant competitive challenges in its core advertising business along with a generally weak advertising market in China due to COVID-19's impact on the country's economy. The share price collapsed in May 2019, coincident with a significant reduction in our view of the business's long-term value. However, based on what we believed to be the core earnings power of the search engine business, along with the value of several non-core assets, the share price remained significantly undervalued. Since that time, Baidu has made progress in its core business, which has begun to show up as visible improvement in growth and profitability. We doubt, however, that is the reason the share price rocketed in the fourth quarter. The stock market has taken a somewhat obsessive interest in companies involved in electric vehicles—as demonstrated by the nearly 750% increase in Tesla's share price in 2020. Baidu is the leading developer of software and other components for automated driving systems in China. As a result, we believe investors in their current mania have begun placing a much higher valuation on this business, even though it generates no profits. The future is now.

Compass Group is the world's largest corporate caterer. The company is based in the UK, though it operates globally. Its largest business is in the United States, which accounts for about 65% of operating profits on a normalized basis. This past year was far from normal. Compass provides catering services to large corporate offices and factories, students at schools and universities, sports fans at sports stadiums, and elderly and hospital patients at health care facilities. The pandemic has naturally caused significant declines in demand at most of these venues. In 2020, about half the company's revenue disappeared. An effective vaccine rollout should serve to restore the company's profit pool as people's living patterns return to something closer to where they were pre-pandemic. The stock market recognized that potential change, and the company's share price increased 24%.

The worst performing stock during the quarter, and the only security that suffered a meaningful price decline (down 19%), was Alibaba. Alibaba is another Chinese Internet company (you can see where the action is). However, unlike Baidu, it has obvious positive characteristics that investors typically highly value. Alibaba's core business is e-commerce, where it provides a platform and takes a fee for almost 60% of everything sold over the Internet in China. The company's dominant position and the fee nature of its business, or what the company calls its take rate, create a highly profitable and growing toll booth on Chinese consumption. We love businesses with these characteristics: highly profitable, cash generative, strong market position and good growth prospects. Generally speaking, an investment in a company of this nature would come at a prohibitively high valuation. Thankfully, in Q1 2020, the stock fell significantly due to the pandemic-driven market drawdown. We were ready. We recognized not only the value of the company's core business but also the significant value in two non-core businesses—Ant Financial and Ali-Cloud—that most investors at the time were unwilling to value. Only months after our purchase, the share price rallied significantly based on the prospect that one of these assets, Ant Financial, would list on the Hong Kong exchange. We took that opportunity to sell some shares in the company, creating a short-term return profile that is uncommon over our operating history. However, shortly before the Ant Financial IPO, the Chinese government stepped in to block the transaction. In addition, the Chinese government has proposed new regulations not only for Ant Financial, but also for the core e-commerce business. Although the share price declined, it remained well above our purchase price, highlighting one of the key benefits of value investing: avoiding a permanent capital loss even in the event of an adverse outcome. As a result of changes in the company's

regulatory environment, the values of both Ant and the company's core business have declined. The remaining share balance has been sold.

The only meaningful change to the investments in the portfolio, aside from the sale of all of the portfolio's shares in Alibaba, was a new investment in Safran.

Safran is a French aerospace company with roots back to 1905. The company generates most of its profits from a joint venture with General Electric established in 1974 to manufacture narrow-body aircraft engines. The current partnership with GE extends through 2048. In its core aircraft propulsion division (about 65% of 2019 profits), Safran makes engines for narrow-body aircraft, some widebody aircraft, helicopters and military aircraft. But almost all profits come from providing service and spare parts for aircraft engines used for civil aviation narrow-body aircraft. Narrow-body aircraft are smaller than widebody aircraft and make up about 74% of commercial aviation jets, excluding smaller regional jets and turbo props. While the installed base of narrow-body aircraft at the end of 2017 was just over 14,000, consulting firm Oliver Wyman and other industry watchers expect that installed base to grow to over 23,000 by 2027, driven mainly by increased air travel in emerging markets. Safran is an exclusive engine supplier to Boeing for its 737 aircraft and operates in a duopoly with Pratt & Whitney to supply engines to Airbus for its A320 series of narrow-body aircraft.

Prior to the pandemic, this cozy duopoly and the decades of history of consistent increases in air travel allowed for Safran's shares to trade at a premium valuation. The civil aviation industry was transitioning away from an older generation of aircraft engines (CFM56 is the name of Safran's old engines) to a new, more efficient generation of engines called the CFM Leap. The industry sells new engines at little to no profit, based on the prospect that over the engines' multi-decade useful lives, there are significant profits in providing maintenance services and spare parts. The company's installed base of engines would grow over time, and the sale of lower-profit new engines would eventually turn into higher-profit maintenance and spare parts. Then two things happened: 1) the Boeing 737 MAX was grounded due to two crashes, and 2) the pandemic wiped out travel.

The consequent decline in Safran's share price created an opportunity to invest in one of the world's aviation technology leaders during a once-in-a-century event that hurt the company's immediate prospects. Based on our internal estimates, we acquired the shares for a valuation of about 11.6X Safran's 2019 operating profits. Clearly, profits and cash flow will decline significantly in both 2020 and 2021. In addition, the issues at Boeing and the current financial strains on the airline industry will delay the rollout of narrow-body aircraft. However, based on normalized profits likely to show up on our estimates in 2024 or 2025, we are acquiring an interest in this business at closer to 8X normalized operating profits—significantly below any objective measure of fair value for a business of this quality.

Perspective

It is important to differentiate between the movements in the broader equity markets discussed in the opening section of this letter and the steps we as value investors have taken to grow our clients' wealth. We are of course active investors, specifically aiming to take advantage of pricing inefficiencies in the equity markets. Effective execution of that strategy allows for risk-managed compounding.

So what have we done throughout the course of 2020's highly volatile year to increase clients' purchasing power? And is that consistent with our historical investing behavior and the philosophy we have used over the last 19 years, or are we just riding the market? The answer, in short, is we've done what we've been committed to since our inception: Find strong businesses across industries and geographies trading at a discount to their intrinsic value. To help illustrate this, we were fortunate enough to have had an opportunity to record an interview last April with Meb Faber, CEO and CIO of Cambria Investment Management, when the pandemic led to severe market turmoil. The recording gives you a detailed picture of our history, philosophy, process and the specific steps around and examples of how your assets were invested amid the market turmoil. We thank Meb for having the foresight to ask questions that endure, and we hope you enjoy the video.

The Meb Faber Show Podcast Featuring David Samra

https://www.artisanpartners.com/individual-investors/news-insights/thought-leadership/insights/the-meb-faber-show-podcast-featuring-david-samra.html

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Attribution is used to evaluate the investment management decisions which affected the portfolio's performance when compared to a benchmark index. Attribution is not exact, but should be considered an approximation of the relative contribution of each of the factors considered.

Contribution to Return includes the securities with the highest positive and negative contribution to the portfolio's return and is calculated by multiplying a security's portfolio weight by its in-portfolio return for the period. Purchases/sales are accounted for by using end of the day prices, which may or may not reflect the actual purchase/sale price realized by the portfolio. Contribution to return is not exact, but should be considered an approximation.

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