



# Artisan International Small-Mid Fund

QUARTERLY  
Commentary

Investor Class: ARTJX | Advisor Class: APDJX | Institutional Class: APHJX

As of 30 September 2021

## Investment Process

We seek long-term investments in high-quality businesses exposed to structural growth themes that can be acquired at sensible valuations in a contrarian fashion and are led by excellent management teams.

### Investing with Tailwinds

We identify structural themes at the intersection of growth and change with the objective of investing in companies having meaningful exposure to these trends. Themes can be identified from both bottom-up and top-down perspectives.

### High-Quality Businesses

We seek future leaders with attractive growth characteristics that we can own for the long term. Our fundamental analysis focuses on those companies exhibiting unique and defensible business models, high barriers to entry, proven management teams, favorable positions within their industry value chains and high or improving returns on capital. In short, we look to invest in small companies that have potential to become large.

### A Contrarian Approach to Valuation

We seek to invest in high-quality businesses in a contrarian fashion. Mismatches between stock price and long-term business value are created by market dislocations, temporary slowdowns in individual businesses or misperceptions in the investment community. We also examine business transformation brought about by management change or restructuring.

### Manage Unique Risks of International Small- and Mid-Cap Equities

International small- and mid-cap equities are exposed to unique investment risks that require managing. We define risk as permanent loss of capital, not share price volatility. We manage this risk by having a long-term ownership focus, understanding the direct and indirect security risks for each business, constructing the portfolio on a well-diversified basis and sizing positions according to individual risk characteristics.

## Team Overview

Our team is intellectually curious about the world and how it is changing. Each team member is passionate about small company investing and discovering businesses with meaningful and open-ended growth opportunities.

## Portfolio Management



Rezo Kanovich  
Portfolio Manager

## Investment Results (%)

As of 30 September 2021	Average Annual Total Returns						
	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception
Investor Class: ARTJX	-1.40	4.33	22.99	15.65	13.72	12.28	12.29
Advisor Class: APDJX	-1.35	4.48	23.20	15.80	13.80	12.33	12.32
Institutional Class: APHJX	-1.33	4.53	23.30	15.92	13.97	12.41	12.36
MSCI All Country World ex USA SMID Index	-0.94	9.48	28.94	8.88	9.40	8.69	9.32
MSCI All Country World ex USA Small Cap Index	0.00	12.23	33.06	10.33	10.28	9.44	10.25

Source: Artisan Partners/MSCI. Returns for periods less than one year are not annualized. Class inception: Investor (21 December 2001); Advisor (4 December 2018); Institutional (12 April 2016). 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	ARTJX	APDJX	APHJX
Semi-Annual Report 31 Mar 2021 <sup>1</sup>	1.31	1.14	1.05
Prospectus 30 Sep 2020 <sup>2</sup>	1.34	1.19	1.10

<sup>1</sup>Unaudited, annualized for the six-month period. <sup>2</sup>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.



### Investing Environment

Global equities pulled back in Q3, in part, on expectations for less accommodative monetary policy across several key markets. Ongoing supply chain issues and investor reaction to certain rate-sensitive sectors also contributed to volatility. While developed markets ended largely flat for the quarter, emerging markets fell sharply. Investors demanded higher yields, with the 10-year Treasury starting 2021 at 0.92% and finishing Q3 above 1.5%. Within the MSCI ACWI ex USA SMID Index, the consumer discretionary and health care sectors were the largest laggards, while the energy and financials sectors produced the strongest returns.

The third quarter did not offer investors an overarching narrative. Instead, there was a lot of distracting short-term noise and cyclical gyrations. We kept our heads down and continued to do what we have always done—that is, focus on opportunities that emerge at the intersection of growth and change and look for companies with characteristics that will protect long-term earnings power and help to weather market volatility. Our experience has consistently demonstrated to us that what matters most for smaller companies is innovation, talented management teams, durable competitive advantages and strong balance sheets.

One important characteristic, especially in today's market environment, that can provide a company pricing power is high value-added bottleneck positioning. We consider a company to have high value-added bottleneck positioning when its products or services occupy a particularly important position in an industry's value chain but represent only a small portion of the end product's total production cost. Having an outsized value relative to cost is particularly important for many smaller companies that can rarely compete on scale with larger competitors. A company that plays a mission critical role is likely to have strong market position, brand recognition, product differentiation and high customer intimacy due to factors such as reliability, safety and ease of use. The resilience afforded to businesses in this circumstance is also attractive to us as long-term investors seeking sustainable success. Assuming they continue to innovate, we find such companies carry a lower risk of being disintermediated.

Certain long-term implications of the COVID-19 pandemic have become clear in various industries—namely, businesses are seeking to bring production closer to their customers, shorten supply chains and lead times and minimize disruptions. In addition, the trend toward specialization continues to accelerate, allowing for best-in-class players to emerge. These shifts only increase the significance of high value-added bottlenecks, which is one of the more diverse themes in our portfolio by industry, sector and geographic makeup.

Our forthcoming portfolio manager Viewpoints, "Punching Above Their Weight Class: High Value-Added Bottlenecks," discusses this theme in greater depth. However, we wanted to provide a couple of examples here to bring this concept to life. One such example is UK-based Rotork, a machinery business positioned as a leader in electric

actuators providing fluid controls for water, chemical, oil and gas plants. Electric actuators are structurally gaining market share from pneumatic and hydraulic actuators, which have less precise control, require more maintenance and emit hazardous pollutants. An actuator could be priced at just 20% of the price of the valve on which it is placed, and valves make up a modest percentage of a process plant's total cost. However, the actuator is critical to controlling process parameters and—when necessary—responding to emergencies. While the actuator business may seem like fertile ground for competition, there are significant barriers to entry due to the high degree of specialization required. Rotork's superior products allow it to price at a premium to competitors and even win projects over more integrated competitors that can also supply the project's valves.

Another example is Swiss-based Siegfried, which operates in the rapidly innovative life sciences industry. Siegfried is a contract development and manufacturing organization that offers products and tailor-made service packages to be seamlessly embedded in the value chain of its pharmaceutical partners. A wide-ranging portfolio includes the development of intermediates and active substances, development services for ready-made drugs, drug approval, production, packaging and logistics. As a former fully integrated pharmaceutical company, Siegfried's customers benefit from synergies, technological competence with strict quality controls and a global presence. In turn, Siegfried has earned brand recognition, preferential partner status and pricing power.

As a reminder, we seek enduring portfolio themes representing a decade-long tailwind to the changing dynamics of a given industry. This philosophy is by nature antithetical to the fits and starts of cyclical trade activity, much of which has dominated the recent environment. That being said, as bottom-up investors who look to be contrarian, the underlying opportunity set steadily evolves due to valuations, business fundamentals and changing competitive landscapes. The result of our approach is a carefully constructed portfolio of idiosyncratic investments across sectors, industries and geographies. This diversity is aimed to provide the portfolio with resilience in different market environments. We are aware of macroeconomic dynamics, but they do not drive our investment process. We try to find companies with management teams that can navigate a challenging operating environment and capitalize on the structural changes transforming the post-pandemic world. We maintain a long-term view and will opportunistically take advantage of short-term volatility to invest in high-quality companies at attractive valuations.

### Performance Discussion

Our portfolio modestly trailed the index in Q3 as holdings in the consumer discretionary and health care sectors dampened absolute and relative returns. On the positive side, our information technology and industrials holdings provided a relative lift.

Our largest decliners in Q3 were MorphoSys, ASOS, boohoo Group, Glaukos and Metso Outotec. Shares of MorphoSys, a name we've discussed in-depth in recent letters, have declined due to soft sales for Monjuvi® and news of the company's recent acquisition of Constellation Pharmaceuticals, which it funded through monetizing part of its royalty portfolio. In our opinion, these recent developments have elevated MorphoSys' risk profile. As a result, we trimmed our position during the quarter and are reassessing the company's future prospects.

While ASOS and boohoo Group, UK-based online fashion retailers, have benefited from increased online spending during the pandemic, their shares have recently retreated mainly due to supply chain issues and higher freight costs. These challenges are not unique to ASOS and boohoo; they are industrywide across large and small competitors. Investor concerns of growing competition from China and tough year-over-year comparisons also weighed on their respective stock prices. In the medium term, ASOS and boohoo are building local fulfillment centers, which will structurally lower distribution costs over time. Moreover, as the volume of international travel returns to pre-pandemic levels, passenger planes can also distribute a large number of shipments at lower costs, making today's higher freight costs transient. Our focus remains on the long-term success of these companies, which, in our view, rests on their differentiated fashion proposition and the efficiency of their platforms. Over recent years, ASOS and boohoo strengthened their customer bases and used their balance sheet strength to acquire high street brands with the potential for meaningfully increased scale. ASOS acquired globally relevant Topshop and Topman, and its platform now includes over 850 brands, including ASOS Design. Boohoo made several acquisitions, including Karen Millen, Coast, Dorothy Perkins and Burton Menswear.

Glaukos, which focuses on novel therapies for the treatment of glaucoma, corneal disorders and retinal diseases, has evolved from a single-product company to a comprehensive ophthalmology company. Glaukos has been very successful commercializing its iStent inject® device that is used to treat glaucoma patients in combination with cataract surgery. The long-term opportunities for Glaukos stem from a number of nascent commercial launches and a pipeline of R&D projects, including Avedro, a leading treatment for keratoconus (cone-shaped cornea that causes distorted vision) and iDose®, an implant for extended-release of glaucoma medication over 6-12 months that has the potential to revolutionize the market. The stock was one of the best performers last year and pulled back recently in response to the news that Medicare may cut reimbursement rates on iStent. The reimbursement cuts are still in the proposal stage, and we believe the company has a strong portfolio of products to ultimately navigate this challenge. More importantly, the long-term value of Glaukos' commercial platform in the pipeline is what underpins our investment thesis. We opportunistically added to our position during the quarter.

Metso Outotec, despite shares dropping modestly after tripling from their pandemic lows, remains one of our top-weighted positions. The

management team has executed on multiple aspects of the ongoing transformation of its business. As a reminder, our investment thesis is threefold: 1) Metso is evolving from its prior life as a metal basher to a high value-added IoT (Internet of things)- and electrification-driven company focused on the automation of mining operations; 2) This transformation represents a long runway for margin improvement; and 3) We think the demand environment will be robust as electrification continues to drive the needs for copper, uranium and other metals. The short-term stock price decline resulted from concerns over volatility in the price for iron ore and demand for aggregates like concrete due to troubles in the Chinese real estate industry. These concerns are not material to our long-term thesis, and we applied our contrarianism by adding to our position.

Top contributors during the quarter were NICE, Intersect ENT, Kornit Digital, Alcon and Comet Holding. NICE, which we have spoken about many times, rewarded our patience following investor rotation away from 2020 "pandemic play" winners. The fundamentals of the business continue to be strong, and the penetration opportunity for call center software remains. NICE also boasts meaningful margin potential, with growth stemming from the cross-sell/upsell opportunity into increased artificial intelligence and analytics across its suite of products—including its platform for financial fraud and compliance.

During the quarter, Medtronic announced its acquisition of Intersect ENT. Intersect ENT focuses on treatments for chronic sinusitis, which is a large, underserved and fragmented market with significant growth potential. The acquisition will expand Medtronic's access to the ear, nose and throat market most notably through Intersect's balloon sinus dilation tools and surgical navigation systems. Intersect's offerings will complement Medtronic's product suite.

Kornit continues to excel in its role as an enabler of the apparel industry's structural shift to automation and instant fashion. Unsold inventory (30% of all garments produced) wastes 21 million tons of textile and 28 trillion liters of water per year (72 years of the US's total water consumption), and Kornit's technology meaningfully decreases the environmental impact. This quarter, we had an opportunity to witness customer enthusiasm of this technology at a New York fashion show. It is obvious to us that Kornit is on the right side of history. Kornit's premier customer relationships and the long tail of high-margin proprietary ink consumables and services, support sustainable cash flows.

Alcon, a manufacturer of surgical equipment and vision care products, was punished at the beginning of the pandemic due to meaningfully fewer elective procedures performed. We took advantage of this opportunity to purchase a premier company at an extremely attractive valuation. Alcon's shares have since rebounded as the shutdown continues to abate in developed markets. We like the company's high level of profitability, as customers tend not to be price sensitive when it comes to their vision care, and we believe Alcon has meaningful opportunities to grow its top line and improve margins.

Moreover, aging demographics in the developed and emerging world, increased spending on health care and advances in material science borne out of the miniaturization and robotization of procedures support long-term earnings.

Swiss-based engineer Comet Holding manufactures components for high-power devices used in processing the next-generation of semiconductors. There is an increasing need for higher power in these processes, and Comet is a market leader in radio frequency (RF) match boxes, also known as vacuum capacitors, and impedance matching networks, with approximately 70% of market share. This is a highly concentrated market that will grow as these devices are required to support trends toward further miniaturization in the semiconductor industry. Match is universally needed, which, in our view, places us on the right side of history. Notably, Comet's RF generator opens up a new market for the company that is twice the size of that of RF match box. It is a high margin and high return on capital business because the focus on engineering is weighted more toward intellectual property than hardware intensity. Comet has a relatively new CEO who has driven growth in the business and divested from non-core products. We are also interested in Comet's product pipeline, including x-ray manufacturing technologies.

### Positioning

Our contrarian approach to valuation has been of particular importance over the last 18 months. Markets have oscillated between periods of fear and uncertainty and periods of irrational momentum buying and wholesale selling of certain sectors. As always, we continued to adhere to our time-tested investment approach, focusing on individual company fundamentals and patiently waiting for entry points that may allow us to double our shareholders' money over five years. Perceived adversity and market volatility over shorter time frames may cause anxiety for some investors, but we welcome such an environment that makes it possible to purchase high-quality companies in an opportunistic fashion.

A risk-aware mindset governs everything we do, from our approach to business model analysis to the portfolio's diversified nature. We incrementally build positions over time as we learn more about the companies through conversations with management and adjust position sizes according to valuations and the execution of strategic initiatives. This disciplined practice helps support comfortable risk/reward margins.

A recent example is Toshiba, which is now at a more meaningful weight months after initiating a position in Q1 of this year. A business with such global name recognition will surprise many readers, who may associate Toshiba's brand with the glory days of its past and involvement in increasingly commoditized business lines. However, small- and mid-cap companies come in various shapes, and opportunities may come along when formerly large companies become small ones. Having transformed itself by stripping noncore businesses and partially monetizing its successful flash memory business Kioxia, we believe the future is bright. The remaining

businesses, in our view, are extraordinarily undervalued and positioned on the right side of history. Toshiba's long-standing commitment to R&D has created significant intellectual property in areas of power generation, hydrogen technologies and quantum computing, and the businesses is buttressed by its very steady infrastructure services operation.

We believe the most attractive investments have enduring business models and differentiation that transcends short-term market cycles. Companies that fit this profile—companies on which we perform rigorous due diligence and look to own throughout various market cycles—are those we think offer the best opportunity for long-term growth.

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Carefully consider the Fund's investment objective, risks and charges and expenses. This and other important information is contained in the Fund's prospectus and summary prospectus, which can be obtained by calling 800.344.1770. Read carefully before investing.

Current and future portfolio holdings are subject to risk. 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. 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. Growth securities may underperform other asset types during a given period.

MSCI All Country World ex USA SMID Index measures the performance of small- and mid-cap companies in developed and emerging markets excluding the US. MSCI All Country World ex USA Small Cap Index measures the performance of small-cap companies in developed markets and emerging markets excluding the US. The index(es) are unmanaged; include net reinvested dividends; do not reflect fees or expenses; and are not available for direct investment.

This summary represents the views of the portfolio managers as of 30 Sep 2021. Those views may change, and the Fund disclaims any obligation to advise investors of such changes. For the purpose of determining the Fund's holdings, securities of the same issuer are aggregated to determine the weight in the Fund. The holdings mentioned above comprised the following percentages of the Fund's total net assets as of 30 Sep 2021: Rotork PLC 1.5%; Siegfried Holding AG 0.7%; MorphoSys AG 0.5%; ASOS PLC 0.7%; boohoo Group PLC 1.0%; Glaukos Corp 0.8%; Metso Outotec Oyj 1.8%; NICE Ltd 3.7%; Intersect ENT Inc 0.4%; Komit Digital Ltd 3.0%; Alcon Inc 1.9%; Comet Holding AG 0.9%; Toshiba Corp 1.5%. Securities named in the Commentary, but not listed here are not held in the Fund as of the date of this report. Portfolio holdings are subject to change without notice and are not intended as recommendations of individual securities. All information in this report, unless otherwise indicated, includes all classes of shares (except performance and expense ratio information) and is as of the date shown in the upper right hand corner. This material does not constitute investment advice.

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.

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**Return on Capital (ROC)** is a measure of how effectively a company uses the money (borrowed or owned) invested in its operations.

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