# Artisan International Fund

QUARTERLY
Commentary

Investor Class: ARTIX | Advisor Class: APDIX | Institutional Class: APHIX

As of 31 December 2021

## Investment Process

We seek to invest in companies, within our preferred themes, with sustainable growth characteristics at attractive valuations that do not fully reflect their long-term potential.

### Themes

We identify long-term secular growth trends with the objective of investing in companies that have meaningful exposure to these trends. Our fundamental analysis focuses on those industry leaders with attractive growth and valuation characteristics that will be long-term beneficiaries of any structural change and/or trend.

### Sustainable Growth

We apply a fundamental approach to identifying the long-term, sustainable growth characteristics of potential investments. We seek high-quality companies that typically have a sustainable competitive advantage, a superior business model and a high-quality management team.

### Valuation

We use multiple valuation metrics to establish a target price range. We assess the relationship between our estimate of a company's sustainable growth prospects and its current valuation.

## Team Overview

Our team approach combines the benefits of strong leadership with the creative ideas of a deep and highly experienced team of research analysts. We believe this approach allows us to leverage a broad set of perspectives into dynamic portfolios.

### Portfolio Management

Mark L. Yockey, CFA
Portfolio Manager

Charles-Henri Hamker
Associate Portfolio Manager

Andrew J. Euretig
Associate Portfolio Manager

## Investment Results (%)

| As of 31 December 2021 | QTD | YTD | 1 Yr | 3 Yr | 5 Yr | 10 Yr | Inception |
|---|---|---|---|---|---|---|---|
| | | | Average Annual Total Returns | | | | |
| **Investor Class: ARTIX** | **2.92** | **9.02** | **9.02** | **14.85** | **12.09** | **9.10** | **9.00** |
| **Advisor Class: APDIX** | **2.95** | **9.16** | **9.16** | **15.01** | **12.24** | **9.21** | **9.04** |
| **Institutional Class: APHIX** | **2.97** | **9.25** | **9.25** | **15.10** | **12.33** | **9.34** | **9.22** |
| MSCI EAFE Index | 2.69 | 11.26 | 11.26 | 13.54 | 9.55 | 8.03 | 5.25 |
| MSCI All Country World ex USA Index[1] | 1.82 | 7.82 | 7.82 | 13.18 | 9.61 | 7.28 | 5.61 |

Source: Artisan Partners/MSCI. Returns for periods less than one year are not annualized. Class inception: Investor (28 December 1995); Advisor (1 April 2015); Institutional (1 July 1997). 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. [1]Performance represents the MSCI ACWI ex USA (Gross) Index from inception to 31 Dec 2000 and the MSCI ACWI ex USA (Net) Index from 1 Jan 2001 forward.

| Expense Ratios | ARTIX | APDIX | APHIX |
|---|---|---|---|
| Annual Report 30 Sep 2021 | 1.18 | 1.04 | 0.95 |
| Prospectus 30 Sep 2020[1] | 1.19 | 1.05 | 0.96 |

[1]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

COVID continued to drive volatility in equity markets in the final months of 2021, but non-US equities managed to finish the fourth quarter with a gain, capping off a solid total-return year. Stocks rebounded decisively in December after markets were spooked in late November by the emergence of COVID variant omicron, which while highly contagious has thus far not proven as virulent as previous strains. Risk assets also overcame concerns about high and persistent inflation associated with robust consumer demand and supply-chain constraints that have driven consensus expectations of a monetary tightening cycle.

Regionally, developed markets, led by the US, outperformed emerging markets, which were held back by China's -6% return. Europe's Q4 gain was roughly 5%, while Japan was down 4%, due in part to weakness in the yen. Returns by sector also displayed a wide dispersion, with mid-to-high single-digit gains in the utilities, materials and consumer staples sectors and negative returns in the communication services, energy and real estate sectors.

All eyes remain on central banks. Which is to say the more things change, the more they stay the same. For more than a decade since the global financial crisis, central banks have supplied liquidity to markets and the economy by holding down interest rates and via asset purchases. In the case of the Fed, these policies have been aimed at achieving its dual mandate of price stability and maximum sustainable employment. The first hasn't been a challenge as disinflationary forces, from aging demographics to globalization, technology and high debt levels, have kept inflation at bay. However today, inflation is soaring around the world. In the US, consumer prices rose 7% year over year in December—the fastest rate in almost 40 years. Similarly, in the eurozone, inflation hit a new record high of 5%. That has led the Fed to retire its use of the word "transitory" to describe its expectations that inflation would soon subside as supply chains heal and to begin the process of tightening policy by scaling back monthly asset purchases. Interest rate hikes are also on the table. As we write this letter in January, markets are pricing in four rate hikes in 2022. Nonetheless, after a decade of easy monetary policy, there remains deep skepticism among investors that monetary conditions can tighten much without markets selling off. And as recent history has shown, when markets sell off, policymakers are quick to come to their aid. So, if there's anything we can be certain of, it's that headlines will continue to drive volatility.

## Performance Discussion

The portfolio slightly outperformed the MSCI EAFE Index in Q4, driven by positive stock selection and favorable currency impacts related to the portfolio's US dollar exposure and lighter weighting in Japanese yen-denominated securities. At the sector level, our materials, technology and communication services were sources of relative strength. Top individual contributors included industrial gases supplier Linde, life sciences and materials company DSM, IT services providers Capgemini and Accenture, as well as biotechnology company Argenx.

Linde, an industrial gases company, is a long-time holding. The industrial gases industry has strengthened as a result of consolidation, with Linde leading the way in terms of pricing discipline. Following Linde's merger with Praxair, the top 4 players comprise over 70% of global market share. Additionally, we believe the industry is well positioned for strong growth supported by an upcoming capex cycle and an inflationary environment. Linde also has a longer term opportunity in clean energy, in particular blue and green hydrogen. Management has laid out a plan to reduce carbon emissions by 35% from 2021 levels and be climate neutral by 2050.

DSM is a Dutch multinational life sciences and materials company. The company's nutrition segment (about two thirds of total sales) is continuing to drive solid growth, margins and cash flow. DSM has transformed itself over the past decade through acquisitions to become a leading global player in animal and human health markets as a provider of key food and feed additives, including vitamins, food ingredients and enzymes. The secular trend toward higher consumption of nutritional products remains an important tailwind for this business. DSM has also spent the past decade developing a new feed additive called Bovaer® that has been shown to reduce methane emissions from cows by approximately 30%. A single cow is estimated to generate three tons of CO2 equivalent annually. An estimated one billion cows globally generate roughly three billion tons of CO2 equivalent—approximately 9% of global emissions. In the past year, Bovaer® obtained regulatory approval in Brazil and Chile, and DSM plans to launch Bovaer® in 2022 in the EU, New Zealand and Australia. Based on our total addressable market (TAM), market penetration and pricing assumptions, we believe Bovaer® has a $1.2bn market opportunity in the EU and New Zealand markets alone.

IT consulting firms Capgemini and Accenture are leading providers of the "picks and shovels" of corporate IT investment, with long-term growth tailwinds in the areas of digital, cloud and security, which constitute a majority of their revenues. Sustained digital trends are driving robust operating results with broad-based demand across geographies and industry verticals. In addition to favorable growth trends, we remain attracted to their global reach, managements' strong records of executing and consistent free cash flow generation.

Argenx's lead drug and the primary driver of valuation is Vyvgart, a medication for myasthenia gravis, a chronic autoimmune disorder that affects the skeletal muscles. In December, Argenx received FDA approval of Vyvgart. The label is clean with no black box safety warnings or any contraindications, which makes it ideal for doctors to prescribe. The stated pricing of Vyvgart is significantly higher that we had expected. Incorporating the higher price, we now model total sales in the US, EU and Japan of $3.6bn versus our prior $2.7bn estimate. We are confident in this estimate given 1) the strong efficacy and safety profile of Vyvgart, and 2) the 1.5+ year lead versus competitors. Upcoming catalysts we expect are approvals in Japan in Q1 and in the EU in the latter half of 2022. Argenx continues to be one of our highest conviction ideas in biopharma. Vyvgart is one of the highest value autoimmune assets in biotech with potential for

expansion to 15+ indications, though we only model 4 indications). This also makes Argenx an attractive M&A target for a large pharma acquiror looking to bolster an existing autoimmune franchise or a company looking for a beachhead asset given Vyvgart's broad potential.

On the down side, our industrials holdings were a source of weakness as our airlines and aerospace investments came under pressure from omicron news and ongoing disruptions to air travel. Individual detractors were European airlines groups International Consolidated Airlines Group (IAG) and Ryanair Holdings, as well as aerospace companies Airbus and MTU Aero Engines. These stocks have generally traded on sentiment around the pandemic, so it's no surprise to see these stocks sell off on the omicron news. While our investment case in IAG, which we purchased in February 2021, is centered around a return to normal travel patterns, we've been investors in Ryanair for many years due to its leading market position, low-cost base and history of returning capital to shareholders. In the global aircraft duopoly, we believe Airbus is well positioned to take share from Boeing given the Boeing 777's history of mechanical issues and due to Airbus's higher quality backlog, greater exposure to the narrow-body market and stronger balance sheet. Airbus's A320 commands two thirds of the order book of the global narrow-body market, a market we believe will outgrow wide-body demand. The A320 was always a better product than Boeing's offering, and the issues with the Boeing 737 Max have further tipped the market in Airbus' favor. And we believe MTU's maintenance and original equipment manufacturing businesses should see growth as travel continues to recover.

Ascendis Pharma, a Danish biopharmaceuticals company, was an additional detractor. Ascendis utilizes its TransCon™ technology to develop drugs that provide for the predictable and sustained release of an unmodified parent drug, thereby improving the drug's effect on patients. Since this technology is applied to proven drug targets, development risk is lower compared to other biotech companies. Our interest is focused on its de-risked pipeline candidates, including for pediatric growth hormone deficiency and hypoparathyroidism. The shares were weak in the first half of the year due to nervousness ahead of the FDA's decision on its growth hormone (GH) drug, though we believed there was a high probability of approval. Our conviction was rewarded when the stock gapped up in August on the announced FDA approval of its growth hormone treatment branded Skytrofa®. Ascendis will price Skytrofa® at a premium to current GH drugs given its superior efficacy. The approval also validates the company's TransCon™ technology, increasing our confidence in the company's pipeline. However, the stock once again weakened in Q4—part of a larger market rotation away from stocks with longer duration earnings prospects.

For the full year, our portfolio trailed its benchmark, with all of the underperformance occurring in Q1 when there was a sharp rotation from growth to value stocks. In Q1, our below-benchmark weightings in banks and energy posed significant relative performance headwinds. For 2021, weak stock selection among our industrials, financials and consumer discretionary holdings outweighed positive selection in the communication services and materials sectors, as well as favorable currency impacts associated with our US dollar exposure and below-benchmark weighting in Japanese yen-denominated securities.

Top 2021 contributors were Alphabet, BNP Paribas and aforementioned Linde, DSM and Capgemini. Alphabet is the parent company of Google, the world's leading Internet search engine and among the largest players in digital advertising. Though US domiciled, the company generates more than half its revenue overseas. The company's advertising business is hitting on all cylinders with growth accelerating in search and YouTube. This is consistent with the strong results across digital ad platforms broadly. The company's cloud business is also growing rapidly.

BNP Paribas is one of the world's largest diversified banks. Our investment case has been focused on BNP benefiting from interest rate normalization as nominal economic growth in the EU recovers, as well as from declines in loan-loss provisioning following increased provisioning in 2020 driven by model losses amid the pandemic. This thesis has been playing out as the company's recent operating results exceeded expectations on low provisioning and solid top-line numbers due to corporate banking. Importantly, BNP announced a €900mn share buyback (1% of market cap). Although small in size, the buyback shows the intent to increase capital return to shareholders. A key driver of the share price movement in Q4 was the announced sale of US subsidiary Bank of the West to Bank of Montreal for $16.3bn or 1.7X tangible book value. Bank of the West has 500 branches and 1.8mn clients, mostly in California. BNP's valuation is still low despite the share price performance, selling for approximately 0.7X tangible book value.

Our biggest 2021 detractors were Midea Group and aforementioned IAG, Ryanair, MTU Aero Engines and Ascendis Pharma. Midea is a Chinese appliances and HVAC manufacturer. Midea's share price weakness in 2021 was a consolidation of 2020's strong gains as Midea's stock price had more than doubled from its March 2020 lows. The stock has also likely suffered from general Chinese equity market weakness. We sold our position in Midea, along with our other Chinese holdings, in the first half of the year due to the country's uncertain regulatory environment, in favor of better opportunities.

### Positioning

Besides repurchasing Airbus this quarter, we also added Experian to the portfolio. Operating in the North American US credit bureau oligopoly (with Equifax and Transunion), Experian offers data and analytics to businesses such as banks as well as direct-to-consumer services to manage and monitor credit profiles. Core revenues, which are highly resilient, should grow high-single digits percentages over time, in our view. We also believe continued investments in new products in health, auto and direct-to-consumer offerings, as well as international growth, such as in Brazil, should lead to double-digit EPS

growth. Consistent strong free cash flow generation should support total shareholder returns via dividends, share buybacks and bolt-on M&A.

During the quarter, we continued to build our position in ICON, a stock we first purchased in Q3. ICON is a clinical research organization (CRO) providing contract clinical research services to the global pharmaceutical industry. CROs are project managers for clinical trials—recruiting patients and ensuring trials enroll on time. After the 2021 $12bn acquisition of PRA Health Sciences, ICON is now essentially tied with IQVIA as the largest CROs. Shares are trading at a reasonable price based on the CRO market's historic growth rate of mid-single to high-single digits percentages driven by multinational pharma/biotech R&D spending and steady increases in outsourcing penetration.

Our largest Q4 sales included AIA, a pan-Asian insurance group, DSV, a transport and logistics company, and CRH, a building materials producer. Although AIA has a Hong Kong classification, it does substantial business in China, and given our concerns around regulatory risks and continued pandemic-related headwinds in that country, we exited our position. Sales of DSV and CRH were on valuation grounds as prices reached our targets.

## Outlook

Equities have rallied strongly from their March 2020 lows as the historic government response globally and the rapid development and approvals of COVID-19 vaccines have bolstered demand. Currently, the key sources of uncertainty are less about demand and more about supply. While top-line growth trends remain favorable, we are keeping a close eye on rising input costs in many areas of the economy. Our long-standing interest in businesses that have dominant market positions, operate in consolidated industries, possess unique assets and provide differentiated solutions, helps us identify companies with pricing power—a critical attribute to have in the current environment. We have positioned the portfolio for the post-pandemic period by seeking as we always do, companies possessing sustainable growth characteristics exposed to secular growth themes, selling at reasonable valuations. We believe that innovative companies with exposure to powerful secular trends tend to grow earnings faster and can sustain earnings growth longer than the average company.

Our investment philosophy and process take us around the globe in search of investment opportunities which may be domiciled in or outside of the US. Using the same investment process as Artisan International Fund, our team also manages the Artisan Global Equity Fund. Since its inception in 2010, returns for the Global Equity Fund have been driven by stock selection based on our best ideas identified around the globe. For those interested in exploring our global fund, please visit www.artisanpartners.com.

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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 EAFE Index measures the performance of developed markets, excluding the US and Canada. MSCI All Country World ex USA Index measures the performance of developed 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 31 Dec 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 31 Dec 2021: Artisan International Fund—Linde PLC 4.4%; Koninklijke DSM NV 3.9%; Accenture PLC 1.2%; Capgemini SE 4.0%; Argenx SE 2.3%; International Consolidated Airlines Group SA 1.2%; Ryanair Holdings PLC 2.4%; Airbus SE 1.5%; MTU Aero Engines AG 0.9%; Ascendis Pharma A/S 1.5%; Alphabet Inc 3.4%; BNP Paribas SA 3.4%; Experian PLC 1.2%, ICON PLC 1.8%. Artisan Global Equity Fund—Linde PLC 0.8%; Capgemini SE 0.7%; Argenx SE 2.4%; Airbus SE 1.1%; MTU Aero Engines AG 0.7%; Ascendis Pharma A/S 1.4%; Alphabet Inc 3.2%; ICON PLC 1.9%. 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.

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**Free Cash Flow** is a measure of financial performance calculated as operating cash flow minus capital expenditures. **Tangible Book Value** is a measure of a company's shareholder equity after removing any intangible assets. **Earnings per Share (EPS)** is the portion of a company's profit allocated to each outstanding share of common stock. **Capital Expenditures (capex)** to either purchase fixed assets or to upgrade existing fixed assets having a useful life longer than the taxable year.

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