Artisan International Explorer Fund

QUARTERLY
Commentary

Advisor Class: ARDBX | Institutional Class: ARHBX

As of 30 September 2022

Investment Process

We seek to invest in high-quality, undervalued businesses that offer the potential for superior risk/reward outcomes. The investment universe is generally non-US equities with market caps below $5 billion.

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.

Portfolio Management

Beini Zhou, CFA
Co-Portfolio Manager

Anand Vasagiri
Co-Portfolio Manager

N. David Samra
Managing Director

Investment Results (%)

As of 30 September 2022	QTD	YTD	Average Annual Total Returns 1 Yr	3 Yr	5 Yr	10 Yr	Inception
Advisor Class: ARDBX	**-11.78**	—	—	—	—	—	**-13.10**
Institutional Class: ARHBX	**-11.78**	—	—	—	—	—	**-13.10**
MSCI All Country World ex USA Small Cap Index	-8.37	—	—	—	—	—	-14.36

Source: Artisan Partners/MSCI. Returns for periods less than one year are not annualized. Class inception: Advisor (16 May 2022); Institutional (16 May 2022).

Expense Ratios (% Gross/Net)	ARDBX	ARHBX
Semi-Annual Report 31 Mar 2022	—/—	—/—
Prospectus 9 May 2022[1,2,3]	1.65/1.42	1.54/1.37

[1]Includes estimated expenses for the current fiscal year. [2]Net expenses reflect a contractual expense limitation agreement in effect through 31 Jan 2024. [3]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. The Fund's returns may vary greatly over shorter periods due to the limited operating period since inception. Call 800.344.1770 for current to most recent month-end performance.

Idiosyncrasy

Everywhere we look, the news is grim: inflation appears no longer transient but persistent, hitting double digits in Europe; global oil prices have recently declined from the triple-digit levels seen earlier this year, but consumers continue to face elevated fuel prices at gas pumps; mortgage rates have risen rapidly, inevitably leading to weaker housing markets; major foreign currencies have depreciated at double-digit rates against the dollar year to date, wreaking havoc on many multi-national companies' profits (although personally, it's a great time to travel overseas if you have any savings left to spare); not to mention, the Russia-Ukraine war continues to grind on, with Putin threatening to use nuclear weapons; and it seems a full-blown energy crisis may likely unfold in Europe this winter.

Of all regions, Europe has been the hardest hit, most notably the UK. The country has been at the center of the recent storm in Europe following the newly elected UK government presenting its tax-cutting budget in late September without a corresponding fiscal funding plan. This immediately sent the pound into a tailspin, the magnitude of which was unseen in recent decades.

As we've been overweight in Europe and specifically the UK since inception, it's only natural for one to ask: aren't you reading the headlines, and why focus on the region? The answer is simple—we don't view ourselves as European investors, UK investors or any country-specific investors per se. Rather, as bottom-up investors, we seek quality, growing businesses at a substantial discount regardless of geography. It's the individual businesses and their idiosyncrasies we're after, not the country, nor the industry for this matter.

With a focused portfolio of fewer than 40 names, we view ourselves as owning a small collection of idiosyncratic businesses—with each business standing on its own within the portfolio. It's the business's idiosyncrasy that we believe presents us with a healthy margin of safety and an attractive source of alpha over time. In other words, we select our specific spots within broader markets very carefully, whether it's in Europe, which currently happens to be inundated with bad news, or any other region.

We're fully cognizant of macro risks at the country level. In fact, we believe that being macro-cognizant is even more important for small-cap companies. Unlike bigger multi-national companies, many smaller businesses in our investible universe are operating in only one or a few countries without enjoying geographic diversification. Therefore, it's paramount for us to analyze those countries' financial statements as well as those of individual businesses. However, it's worth emphasizing that we never analyze macro factors in a vacuum. Macro analysis always takes place in the context of individual businesses.

For the UK, we're keenly aware of the deteriorating macro environment, exacerbated by the recently announced government budget. That doesn't deter us from continually overturning stones in the local stock market. Excessive pessimism toward the country coupled with the recent pound depreciation signals more opportunities than risks for us—we just must remain extremely selective. For example, if a business has three out of the four criteria we're looking for—namely, a good business, sensible management, a strong balance sheet and a good price—the question really becomes, is all the bad news more than priced in? Indeed, we've identified a few idiosyncratic opportunities in the UK, as well as in the rest of Europe, on which we've been doing a deeper dive.

What We Bought and Sold in the Quarter

We didn't initiate any new security purchases this year until recently at the end of Q3 2022. We can assure you we were as busy as ever in uncovering new opportunities and sharpening our understanding of companies on our current watchlist. We continue to work hard for our investors and resist the urge to trade and generate activity every day. Our approach is to do nothing until something jarring happens and a company's share price falls below our set buy price. While this approach may sound boring, we believe it is more effective over time. Something jarring indeed happened on September 21 as the US Federal Reserve continued to increase interest rates to levels not seen in years. Its hawkish stance alarmed the market, and share prices worldwide subsequently declined sharply at the end of Q3 2022. That's when we stepped in and made purchases in two new businesses after nine months on the sideline. We'll describe only one of these purchases since we're still building our position in the other.

We stepped into shares of Switzerland-based Medmix. The company makes high-precision delivery devices, such as mixing tips, which are designed to mix and deliver liquids. The health care end market accounts for roughly 40% of Medmix's revenue but the majority of its profit. Industrials and cosmetics end markets account for the remaining portion of its revenue. Within health care, the company's biggest end market is the dental segment, where Medmix enjoys a 20% overall share as a market leader and in particular a 60% share in prosthetics. The majority of its portfolio is IP-protected as the company currently has over 900 active patents. It's primarily a consumables business, so we expect it to be relatively resilient to a potential economic downturn.

Medmix was spun off from the Swiss industrials company Sulzer in 2021. As an independent entity free from its parent's business and capital allocation strategies, we expect Medmix to experience faster organic growth from historical mid-single to mid-to-high single digits along with an increase in operating margin from mid-teen to high-teen rates over the medium term. In the short term, however, the company continues to face headwinds, since its biggest shareholder, owning roughly 40% of the business, is a Russian oligarch. In addition, Poland has sanctioned Medmix's Polish subsidiary, so the company shut down the local Polish production facility and took a write-off.

This situation is clearly causing disruption at the back end of its business.

Just to be clear, this is a Switzerland-based, multi-national business that has negligible revenue from Russia or Ukraine. The Russian oligarch, who happened to take a significant stake in its former Swiss parent many years ago, has been sanctioned by US and European governments, but the business outside of Poland has continued normal operations. As expected, the market has severely punished Medmix due to its association with the oligarch.

The company is currently in a catch-22 situation. While the current valuation is attractive, Medmix or any outside strategic investor cannot buy the stake from the oligarch as the transaction will violate the very sanctions that resulted in this situation. Other proposed solutions include the state taking control of the oligarch's stake, but then the question is which state or country should do so—the country of domicile or all the countries where the company operates? Given this complexity, it is no surprise that even though there seems to be an intent and appetite to remove the oligarch from the shareholder registry, the mechanism and timing have yet to be determined. While its business outside of Poland continues to execute and perform well, a lack of clarity on a resolution for the oligarch ownership situation has put pressure on the share price and has created an opportunity for us to buy this global franchise at what we believe is a discounted price.

On the sale side, we sold Electro Optic Systems (EOS) in Australia at a loss. EOS is an aerospace and defense company with core competency in electro-optical communications, and over the years it developed laser-based defense systems, such as remote weapon stations and counter-drone systems. When we invested in the business, we believed the company's order pipeline, which was multiples of its annual revenue, could deliver solid multi-year growth. We also believed one of its key subsidiaries, the US-based SpaceLink, was developing a new satellite business in the space economy that was not fully appreciated by the market and could be valuable.

EOS appeared to have a pristine balance sheet. In hindsight, however, we overestimated its balance sheet strength. For both the development of SpaceLink, which is at a relatively nascent stage, and the ramp-up of new orders in its core defense business, a significant amount of upfront capex and working capital is needed. Unfortunately, the external funding it hoped to secure last year for SpaceLink didn't materialize, so EOS resorted to raising fresh equity earlier this year, thus diluting existing shareholders. We're still optimistic about its long-term growth prospects, but we're concerned that between now and then the company's significant funding needs could result in material downside risks for existing shareholders that are hard to quantify. As a result, we sold shares during the quarter.

Top Contributors and Detractors

The portfolio underperformed the MSCI All Country World ex USA Small Cap Index in the third quarter, primarily since a handful of our biggest positions underperformed. Out of the five biggest detractors, four are among our top 10 positions, and their combined size represented approximately 20% of the portfolio. Fundamentally, none of the four businesses reported profit warnings, and in fact, all of them reported what we consider decent results during the quarter.

We have been monitoring the impact of rising energy prices in the EU and the UK over the last year. Most of our portfolio companies in these regions offer services, have a diversified manufacturing footprint and/or have manufacturing operations that are not energy intensive. The one exception is AlzChem, a vertically integrated, specialty chemicals manufacturer in Germany and a sub-2% position in our portfolio. AlzChem holds a dominant market share in Europe in its primary product area. Due to rising energy and sea freight costs, the company's market position has recently been further strengthened due to much-reduced competition from Chinese imports. So far, the company has been able to largely pass on rising raw materials and energy costs. Moreover, AlzChem has a manufacturing facility in Sweden, where we estimate the company manufactures about approximately 15%-20% of its products. Energy costs in the Nordics are a fraction of the cost in the EU. Management also plans to move the manufacturing of some of the company's energy-intensive products to the plant in Sweden. When combined, these factors should continue to help AlzChem weather the energy crisis, and we expect the company to continue to deliver relatively resilient profits.

Our two largest contributors in Q3 were Zuken (contributed 19bps) and Mitra Adiperkasa (contributed 10bps).

Zuken is a Japanese software company specializing in the global electronic design automation (EDA) market. EDA tools are essential industrial and electronics design software widely used across many verticals such as semiconductors, electronics, autos, aerospace and industrial machinery. The Japanese company occupies two relatively niche areas within EDA—printed circuit board (PCB) design and wire harness (WH) design. Both are widely used electronics components with increasingly sophisticated design requirements, driven by secular trends in 5G, the Internet of Things, electric vehicles, etc. This bodes well for the long-term growth potential of Zuken's software. In PCB, Zuken has more than a 60% share in Japan and close to a 30% share globally; in WH, it has close to a 90% share in Japan and a 50% share globally. The company is what we'd call a hidden gem. Zuken reported favorable earnings during the quarter, so subsequently the share price rose. We held onto our Zuken shares as we believe it remains materially undervalued.

Mitra Adiperkasa (MAPI) is an Indonesian omni-channel retailer and local operator of over 150 well-known international food and beverage brands (e.g., Starbucks), fashion (e.g., Zara), and health and beauty categories. MAPI's shares continued to rise after a strong first-half run. When an international brand enters an emerging market like Indonesia, it's not uncommon to see the foreign brand owner partnering with a local operator that has broader local channel resources and intimate knowledge of the country. As such, MAPI has proven to be a trusted local partner for many international consumer brands over the years. While its share price took a steep dive due to the impact of the initial COVID strain, it also took a hit late last year when the omicron variant surfaced. Fortunately, as the country emerges from COVID, MAPI has resumed normal store operations, and its share price has since recovered. We held onto the shares as they were trading at around 10X earnings at quarter end.

M&C Saatchi and Despegar were the two biggest detractors: M&C Saatchi (detracted 141bps) and Despegar (detracted 140bps).

M&C Saatchi (M&C) was our largest position at the end of the third quarter. M&C is a UK-based advertising agency that achieves half of its revenue from digital-based programs. The digital revenue segment has been growing at over 20% with over 20% operating margin. The overall business has also been growing at a double-digit rate coupled with a double-digit operating margin. Unlike the big four advertising agencies, M&C has no exposure to traditional media buying businesses, which have been most vulnerable to the likes of Google and Facebook over the past decade. The company's primary strength has always lain in digital and offline creatives. Creative has proven to be relatively hard for digital natives to disrupt. Even TikTok, one of the most advanced and widely used digital apps, recently hired M&C to develop creative campaigns designed to attract new users.

The company ran into an accounting irregularity three years ago, which was uncovered by the then-newly hired CFO. The accounting book had to be cleaned, and some write-offs had to be taken due to past shoddy M&A deal-making. Old guards were subsequently removed, and a new management team was installed. During the period, M&C's share price was cut by more than half. A local business executive, Vinodka Murria, saw an opportunity and accrued more than a 12% stake at a bargain price and is now its largest shareholder. At the beginning of this year, frustrated with the slow progress made by the new leadership team, Murria effectively launched a bid for the entire business using one of her listed investment vehicles. In late May, another bid surfaced from a listed UK-based industry peer, Next Fifteen. Both bids contain a heavy share-swap component, so both acquiring entities' share prices fell and M&C's share price fell with Next Fifteen despite recently reporting solid H1 numbers. The company's share price ended the quarter at around 5X earnings before interest and taxes (EBIT). We bought shares during the quarter.

Murria's bid didn't gain shareholder approval and has lapsed. The shareholder vote on Next Fifteen's bid is expected to take place in Q4 2022. We believe their bid price still materially undervalues M&C Saatchi and have expressed our view in early June through a public letter addressed to its board. The board has subsequently withdrawn its support for Next Fifteen's bid.

Despegar is the largest online travel agency in Latin America. Its share price has been cut by more than one half between the end of Q1 2022 through Q3 2022, despite improving travel fundamentals in Latin America. We can only suspect that it was either distressed or short sellers who put pressure on the stock in a declining market. Throughout COVID, the management team removed a significant amount of structural costs, creating a much more efficient business. If and when travel volume recovers to pre-COVID levels, we fully expect the company to earn multiples of what it did in 2019. The share price ended the quarter at approximately 4X what we consider normal EBIT with close to half of its market cap in net cash. We bought shares during the quarter.

For more information: Visit www.artisanpartners.com | Call 800.344.1770

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. The value of portfolio securities selected by the investment team may rise or fall in response to company, market, economic, political, regulatory or other news, at times greater than the market or benchmark index. A portfolio's environmental, social and governance ("ESG") considerations may limit the investment opportunities available and, as a result, the portfolio may forgo certain investment opportunities and underperform portfolios that do not consider ESG factors. 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. Such risks include new and rapidly changing political and economic structures, which may cause instability; underdeveloped securities markets; and higher likelihood of high levels of inflation, deflation or currency devaluations. 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. Value securities may underperform other asset types during a given period.

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.

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This summary represents the views of the portfolio managers as of 30 Sep 2022. 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. These holdings comprise the following percentages of the Fund's total net assets (including all classes of shares) as of 30 Sep 2022: M&C Saatchi PLC 6.4%, Mitra Adiperkasa Tbk PT 4.7%, Despegar.com Corp 4.0%, Zuken Inc 3.6%, AlzChem Group AG 1.9%, Medmix AG 1.1%. 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.

ESG assessments represent one of many pieces of research available and the degree to which it impacts holdings may vary based on manager discretion.

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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Free Cash Flow is a measure of financial performance calculated as operating cash flow minus capital expenditures. **Return on Capital (ROC)** is a measure of how effectively a company uses the money (borrowed or owned) invested in its operations. **Earnings Before Interest & Tax (EBIT)** is an indicator of a company's profitability, calculated as revenue minus expenses, excluding tax and interest. **Margin of Safety**, a concept developed by Benjamin Graham, is the difference between the market price and the estimated intrinsic value of a business. A large margin of safety may help guard against permanent capital loss and improve the probability of capital appreciation. Margin of safety does not prevent market loss—all investments contain risk and may lose value. **Operating Margin** is a measure of profitability equal to operating income divided by revenue.

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A R T I S A N  P A R T N E R S

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