Artisan International Explorer Fund

QUARTERLY
Commentary

Advisor Class: ARDBX | Institutional Class: ARHBX

As of 31 March 2023

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 (%)

			Average Annual Total Returns				
As of 31 March 2023	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception
Advisor Class: ARDBX	**14.61**	**14.61**	—	—	—	—	**11.52**
Institutional Class: ARHBX	**14.61**	**14.61**	—	—	—	—	**11.58**
MSCI All Country World ex USA Small Cap Index	4.70	4.70	—	—	—	—	1.59

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
Annual Report 30 Sep 2022[1,2]	6.08/1.40	2.91/1.35
Prospectus 30 Sep 2022[2,3,4]	1.84/1.41	1.45/1.36

[1]For the period from commencement of operations 16 May 2022 through 30 Sep 2022. [2]Net expenses reflect a contractual expense limitation agreement in effect through 31 Jan 2024. [3]See prospectus for further details. [4]Includes estimated expenses for the current fiscal year.

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.

Even though we started the year with a bang, you would be bound for disappointment if you were to extrapolate our Q1 performance. Notably, we managed to substantially outperform the benchmark despite the drag from a double-digit cash level and a portfolio beta of less than one. It defies logic and speaks volumes to the idiosyncratic nature of our portfolio.

Top Contributors and Detractors in the Quarter

Our top two largest contributors in Q1 were M&C Saatchi plc and Hensoldt.

M&C Saatchi is a UK-based advertising agency that we have commented on multiple times in past letters. As our largest position by a meaningful margin since inception, the weighting has contributed to its outsized performance. We attended its capital markets day in London in February, where management reaffirmed its medium-term double-digit growth prospects, boosting market confidence. Toward the end of the quarter, the company announced a new chairwoman of the board. We welcome the news and view it as an upgrade given her highly relevant industry experience and look forward to meeting with her. We believe the company's share price remains significantly undervalued even after the recent rally.

Hensoldt is a German defense business, specializing in electronic sensors. The company was spun off from Airbus a few years prior to being listed in 2020. We initiated the position in the first half of 2021, well before the war in Ukraine started. Our original thesis was very simple—double digits with double-digit operating margin growth and free cash flow growth yet trading at around 10X free cash flow—then the war suddenly brought the European defense industry into sharp focus. As the war dragged, on lapping its one-year anniversary at the end of February with no ending in sight, Hensoldt became our best performing stock in percentage terms for the quarter. According to the press, however, the German government has not even spent a cent of the €100 billion special defense budget announced a few days after the war broke out. As such, we believe Hensoldt's recent share price rise was largely driven by sentiment rather than business fundamentals. We substantially trimmed the position as its valuation rose to above 20X free cash flow.

Our two biggest detractors in Q1 were IQE and NexTone.

IQE is a UK-based upstream materials provider in the semiconductor industry. The company specializes in making compound semiconductor wafers and is one of the few players globally that possesses the process know-how. Conventional semiconductor wafers are primarily comprised of one type of material—silicon. In contrast, a compound semiconductor is comprised of chemicals belonging to two or more elements from the periodic table. These compound materials deliver power efficiencies and optical properties beyond the limits of silicon. Your smartphone, for example, carries multiple chips made of compound semiconductors.

We initiated the position in IQE in Q4 2021. Its share price rose last year in a down market when the new CEO delivered a positive message regarding long-term growth potential. During the quarter, IQE released a profit warning, significantly guiding down prospects for 2023 due to further perceived weakness in the smartphone market. Softness in the smartphone market started more than a year ago, but its impact on IQE has been moderate until now due to the company's upstream positioning in the supply chain. We believe this is a cyclical issue rather than anything structural impacting IQE's competitive advantage. Given the cyclicality of the company's end markets, we kept it a small position at around 1% and only added to the position after the share price took a big dive.

NexTone is a music copyrights management business in Japan. Every time a copyrighted song is streamed digitally or an album is sold, a copyrights management business tallies and collects royalties from digital streaming platforms such as Apple Music or online/offline retailers. It then pays the royalties to related song writers and composers while keeping a small cut, typically single-digit percentage, of the royalties as its revenue. This business plays a vital behind-the-scenes role in the music ecosystem by ensuring intellectual property protection and management for artists.

In most countries, music copyrights management is handled by only a few players. In Japan, however, it is dominated by a quasi-government entity called JASRAC (Japanese Society for Rights of Authors, Composers and Publishers). Many startups, as well as established businesses, have unsuccessfully tried to wrestle share away from JASRAC over the years. Only one remains—NexTone. Bankrolled by a consortium of music label companies, such as Amuse and Sony in their early days, the company has been slowly but surely chipping away JASRAC's market share. Today, NexTone has around 6% market share versus over 90% for JASRAC. It has been gaining share by luring artists away from the incumbent through better data analytics and work promotion. We believe NexTone is poised to reach greater than 10% market share over the medium term.

We initiated our position toward the end of 2020, and our thesis remains intact. NexTone's business model is unique, and the company is free cash flow generative with negative working capital and a secular growth runway. We also believe in the company's ability to continue gaining market share against a slower moving incumbent. We trimmed the position twice in late 2021 and again in late 2022 when its share price more than doubled. The recent share price decline was prompted by the company issuing a slightly soft earnings report in February, providing an opportunity to add to our position on weakness.

What We Bought and Sold in the Quarter

We did not initiate any new names and sold out of one name in the quarter. The global equity market rally that started early last October continued, tempered a bit toward the end by the US banking crisis in March. We have not owned any banks since inception, so there is no direct impact on the portfolio. However, we believe the indirect impact on the global economy as well as equity markets could be felt for a long time to come. More than a decade of low interest rates followed by the US Federal Reserve's rapid rate increase cycle last year might have begun exposing skeletons in many corporate closets that few of us knew existed, and more dominoes may fall. Well before the US banking crisis, we started taking a cautious view on calibrating the estimated intrinsic value of the businesses we analyze. Though we did not buy any new names, our watchlist is longer, and we remain disciplined on our entry price point.

We sold out of Cashbuild, essentially the Home Depot of South Africa. Like the rest of the global home furnishing industry, it enjoyed the COVID-induced boom followed by a post-COVID correction last year. A key part of our thesis rested on the company buying a smaller competitor at a bargain price when COVID hit in 2020. What would have been the deal of Cashbuild's lifetime was, unfortunately, thwarted by the local regulator. After reassessing the situation, we identified a more attractive opportunity in the same industry and decided to exit Cashbuild.

Taking Risks with Risk Management: A Tragedy of Errors

There has been a lot of press coverage of risk management in recent weeks stemming from the sudden collapse of Silicon Valley Bank (SVB) and other regional banks. Maybe because we are based in the San Francisco Bay Area, even some of the casual conversations we overheard at coffee shops seemed to center on risk management post-SVB implosion. Successful risk management requires averting disaster; it is seldom lauded when handled well but is often thrust into the limelight when it fails.

Even before the Wall Street Journal reported SVB lacked a chief risk officer for most of last year, a lack of risk oversight at SVB seemed like common knowledge. People have a tendency (termed "recency bias" by behavioral scientists) to overemphasize and overestimate the likelihood of recent occurrences repeating in the future. As a result, it may soon become common practice for a suburban banking customer to demand an organizational risk management chart before opening a bank account.

Duration risk (a culprit in the SVB saga) is just one of the many risks we, as investment managers, think about. Later in this letter, we highlight some of the types of risk we encounter and how we carefully try to mitigate them.

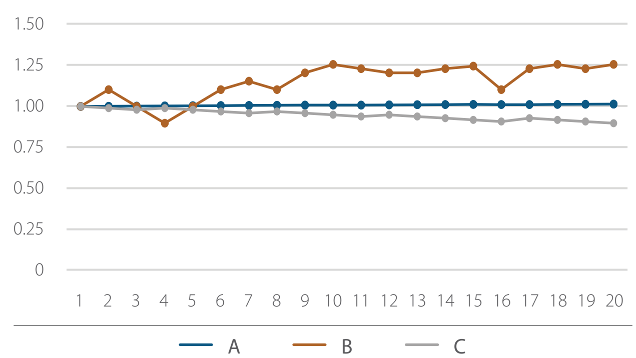
But before we get into the weeds, let us engage you in a simple exercise. Please see the prices and performance of three fictitious securities (A, B and C) over time (twenty periods) below. Just based on these data points, we ask you to rank them from riskiest to least risky.

Exhibit 1: Illustrative Stock Prices

Time Period	A	B	C	Time Period	A	B	C
1	1.000	1.000	1.000	11	1.008	1.225	0.940
2	1.001	1.100	0.990	12	1.009	1.200	0.950
3	1.002	1.000	0.980	13	1.010	1.200	0.940
4	1.003	0.900	0.990	14	1.011	1.225	0.930
5	1.004	1.000	0.980	15	1.012	1.240	0.920
6	1.005	1.100	0.970	16	1.011	1.100	0.910
7	1.006	1.150	0.960	17	1.011	1.225	0.930
8	1.007	1.100	0.970	18	1.012	1.250	0.920
9	1.008	1.200	0.960	19	1.013	1.225	0.910
10	1.008	1.250	0.950	20	1.014	1.250	0.900

Source: Artisan Partners. For illustrative purposes only.

Exhibit 2: Illustrative Stock Performance



Source: Artisan Partners. For illustrative purposes only.

Some of the more mathematically inclined among you may attempt to calculate the standard deviation of returns and rank the securities based on that metric. We will save you the trouble and offer that data in Exhibit 3.

Exhibit 3: Standard Deviation of Illustrative Returns

A	B	C
0.057%	6.853%	1.005%

Source: Artisan Partners. For illustrative purposes only.

Based on the numbers in Exhibit 3, would it be fair or right to say that B is substantially riskier than a money-losing proposition, C? Your answer may well not align with that one metric.

Some of you may even say, "Wait, risk compared to what?" as is the norm for financial markets analysis.

For the next exercise, let us assume that A is actually the market/index and B is a concentrated portfolio of idiosyncratic and attractively priced securities at a deep discount to fair value. In this instance, a traditional beta of B to A is well north of one and may encourage many to view B as a much riskier proposition.

Hold on to that thought as we make just one tweak for the last exercise. For this part, assume C is the performance of the market/index while B remains the portfolio under our review. Suddenly, based on the traditional beta, B is less risky than the market (in this case, C).

Note in our last two exercises the performance of B did not change. Only the relative index/benchmark and its performance over which an investor has no control changed.

The point is that reliance on a single or handful of mathematical or financial metrics to capture or quantify risk may not lead to the right answers and can potentially engender complacency and a misplaced sense of security.

So, what do we view as risk?

We view risk as the potential for permanent loss of capital. For us, risk is not volatility or deviation in performance—over or under—from any benchmark. We like volatility as it gives us an opportunity to get involved with good franchises due to temporary mispricing and mood swings of Mr. Market. For all the complaints of irrationalities in the market, if Mr. Market were truly rational all the time, yours truly and many peers would be out of a job.

With that focus on capital preservation, in no particular order, the different types of risk we think of when selecting investments and managing our portfolio are as follows:

- **Macro**: Many external risk factors belong in this category, including inflation, volatile commodity prices and supply chain disruptions. We try to mitigate these risks by focusing on good business franchises with some moat. These businesses often have pricing power and are able to pass on price hikes to protect their profits, if not the optical margins.
- While we expect good franchises run by sensible management to flourish in most economic environments, we also pay attention to where our companies are domiciled and operate. We would like these countries to have reasonable balance sheets and fiscal budgets, sensible leadership and offer fair protection of property rights for international investors in their local jurisdictions.
- **Capital Misallocation**: Management, along with the board, determines how capital generated by the business is allocated, and value can be destroyed by reckless capital allocation. By focusing on companies with good management teams, we can potentially not only offset this risk but also benefit from additional value creation through disciplined capital allocation.
- We look for businesses with sensible owner-operators and instances where management's incentives are aligned with those of minority shareholders. This reduces moral hazard risk and keeps management focused on being nimble to address challenges in the market, such as supply chain disruptions and geopolitical issues.
- **Liquidity**: Rising interest rates and declining credit availability have highlighted the value of liquid balance sheets. By focusing on companies with strong balance sheets, we are able to sleep peacefully knowing they are more likely to not only survive a liquidity crunch but also potentially thrive in such environments by competing aggressively as levered competitors struggle to survive.
- **Valuation**: A normalizing interest rate environment is likely to lead to a normalization in the cost of capital and the valuation multiples for companies. By always using a normalized cost of capital and taking a "through the cycle" view of the earnings power of a business, we are not swayed by valuations benefiting from short-term or cyclically depressed expense line items such as credit costs. Being stingy on the prices we pay and looking for a margin of safety can potentially give us some downside protection even if there is multiple compression and some of our assumptions are off.
- **Dilution and Over-Diversification**: As disciplined investors, our goal is to identify a range of idiosyncratic investment opportunities with asymmetric risk-reward profiles. While we do construct our portfolio to have the benefit of diversification across different parameters, we remain benchmark agnostic and avoid diluting the impact of our convictions. Consequently, our portfolio is focused with just 30-40 stocks. We realize that the active share and tracking error of our portfolio will likely remain high, but we consider this to be a desirable feature of our process rather than a flaw.
- **Duration and Asset/Liability Matching**: As recent events have showcased, a mismatch in expectations between capital providers and investee companies can result in material value destruction. We take a "through the cycle" view of the earnings power of our businesses, and our average expected holding period is three to five years. We emphasize this to portfolio companies as well as current and potential investors as we do not want mismatched expectations adversely impacting our investment process and introducing additional risk.

Lastly, we attempt to avoid stacking up different—even if sometimes uncorrelated—risks as they can lead to binary outcomes. For example, think of a commodity producer with a volatile earnings stream (a price taker with commodity price risk) with a substantial fixed-cost base (operating leverage) and debt on the balance sheet (financial leverage). If you get it right, it can be a massive multibagger, but if not, it can lead to a complete and permanent loss of capital. A substantial portion of our personal savings is invested alongside our investors' capital, and gambling with anyone's hard-earned money is bête noire to us.

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 and less developed markets, including frontier 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 31 Mar 2023. 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 31 Mar 2023: M&C Saatchi PLC 8.8%, Hensoldt 4.4%, IQE 1.5%, NexTone 0.8%. 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.

This material is provided for informational purposes without regard to your particular investment needs and shall not be construed as investment or tax advice on which you may rely for your investment decisions. Investors should consult their financial and tax adviser before making investments in order to determine the appropriateness of any investment product discussed herein.

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. **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. **Active Share** is the percentage of a portfolio that differs from its benchmark. Active Share can range from 0% for an index fund to 100% for a portfolio with no overlap with an index. **Tracking error** is the difference between the price behavior of a position or a portfolio and the price behavior of a benchmark.

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