Artisan International Explorer Fund

QUARTERLY
Commentary

Advisor Class: ARDBX | Institutional Class: ARHBX

As of 30 June 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 (%)

As of 30 June 2023	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception
			Average Annual Total Returns				
Advisor Class: ARDBX	**-0.63**	**13.89**	**12.51**	—	—	—	**9.58**
Institutional Class: ARHBX	**-0.63**	**13.89**	**12.57**	—	—	—	**9.63**
MSCI All Country World ex USA Small Cap Index	2.05	6.84	10.93	—	—	—	3.26

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 2023[1,2,3]	2.26/1.40	1.71/1.35
Prospectus 30 Sep 2022[2,3,4]	1.84/1.41	1.45/1.36

[1]Unaudited, annualized for the six-month period. [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. Call 800.344.1770 for current to most recent month-end performance.

Incentives

It's now almost a cliché to say incentives drive everything. Alongside many of our industry peers, we have long felt it essential to examine the compensation plans and ownership stakes of management and board members. After all, they are key parts of any business's incentive scheme. Nonetheless, due diligence on incentives in our industry, as far as we can tell, usually goes little beyond senior management and the board. The disconnect with this approach is no matter how good the boardroom strategy is, successful execution depends on lower level employees. If the rank-and-file is not properly incentivized, all stakeholders will eventually be disappointed.

Examining senior management compensation plans and related underlying key performance indicators is usually more straightforward as quite a few countries require their disclosure. On the other hand, it's not so easy for outsiders, or even insiders for that matter, to uncover the incentives driving lower level employees.

There's no silver bullet to uncover incentives. Culture can be a good proxy, if you believe good culture leads to more motivated and properly incentivized employees. A strong owner-operator can often instill a strong culture over time, which can be correlated with a healthy incentive system. Until ChatGPT is powerful enough to give us a reliable quantitative score on these subjective matters, which we suspect is years away if ever, we will continue to do as many channel checks as we can in order to peel back the onion and get closer to the truth.

Occasionally, discussions around incentivization of the rank-and-file come up. This happened to us this quarter when we traveled to Japan. For the uninitiated, the term "salaryman" comes from Japan and means a salaried employee that spends a lifetime working for one employer. The employee is rewarded for loyalty rather than performance. This traditional image of Japan Inc has certainly been changing for the better in the past few decades. However, the two-steps-forward-one-step-back progress leaves something to be desired for Western investors; hence, Japan is probably the last country you'd expect to have a discussion of this type.

We met two relatively young presidents of dynamic businesses with double-digit growth operating in rather mundane industries. The president of a homebuilder described to us how he's recently changed the incentive system for his sales force, from a fixed percentage of unit gross profit to a tiered reward system, to improve the average selling price. Separately, the president of a call center business explained his sophisticated point system to compensate top performers in a call center with astonishingly high annual pay packages (one of us almost fell off the edge of his seat in the meeting when we heard the number). Meanwhile the company's supervisors, who manage hundreds of top performers, actually have much lower pay packages. These were refreshing discussions in a country like Japan and around a topic we deeply care about. By the way, good incentives don't have to be monetary. We've learned over the years that non-monetary incentives can be as powerful as monetary ones.

This brings us back to our own incentives behind running this strategy. Unlike most of our peers, running this non-US small-cap strategy is not a side job nor a springboard for us. We have a material portion of our personal wealth invested in this very strategy. It's not an exaggeration to say that we live or die with this strategy. We cannot think of a better way to align our interests with yours.

What We Bought and Sold in the Quarter

We initiated a position in UK-based Kingfisher, which is the biggest home improvement retailer in the country. You can think of it as the Home Depot of the UK. The retailer operates under multiple banners in various countries, including B&Q and Screwfix in the UK, Castorama and Brico Depot in France, and Castorama in Poland. It derives almost all of its profit from these three countries, roughly two-thirds from the UK and one-third from France and Poland.

Unlike Home Depot, whose share price has compounded nicely over the decades, Kingfisher has been a perennial underperformer, despite the allure of its asset base. The business went through several CEOs in the past two decades, each of whom promised a new era but always fell short. The current CEO, Thierry Garnier, is a Carrefour veteran who joined in late 2019, shortly before COVID. He immediately dismantled his predecessor's disastrous One Kingfisher strategy and returned all operating and merchandising decisions back to each retail banner. Although COVID put a wrench in his plan and the COVID-induced home improvement boom is now subsiding, we believe he's putting in the right operational and capital-allocation measures to place the business on a sustainable growth trajectory.

Just to give you one example, Home Depot's US business is about evenly split between trade (think of them as contractors) and do-it-yourself (DIY) customers. For Kingfisher, trade only accounts for a quarter. To address this, Thierry has dedicated floor space and account reps within B&Q stores to attract trade customers. We agree with him that this should be a top priority. Trade customers are attractive because they spend a lot more per capita compared to DIY shoppers. And the UK may never become as big in DIY as the US in home improvement, but there's certainly room to grow.

We bought the shares at around 10X what we believe to be normal free cash flow excluding net cash. Yes, the valuation is cheap, but we would not have bought the cheap shares without our positive view of Thierry. To us, the big short-term uncertainty is how well home improvement demand can hold up given the UK's macro situation. We've sized the position accordingly.

We sold out of Bid Corp in South Africa and ATS Corp in Canada. Bid Corp is one of the biggest business-to-business food distribution businesses in the world. ATS is a system integrator in factory automation, notably for life science and electric vehicle battery assembly. We've owned both since inception and both have done satisfactorily, especially ATS. Our hats off to ATS' CEO, Andrew Hider. We sold each as they reached our target price in the quarter.

Top Contributors and Detractors

We underperformed our benchmark by over 200bps for the quarter on the heels of our outperformance of nearly 1,000bps in the prior quarter. Our goal is NOT to outperform every single quarter. Our goal is to outperform over a multiyear period without taking undue risks.

Our top two largest contributors in Q2 were Despegar.com and Glenveagh. These two are among our top ten positions.

Despegar.com is the largest online travel agency in Latin America. Travelers book flights and hotels on its website or mobile app. As you can imagine, its business was severely hobbled during the depths of COVID, but it started to recover about a year ago. Its most recent earnings release showed a continuing recovery with traffic volumes now just slightly below pre-COVID levels. The company took advantage of the COVID environment by optimizing its cost base such that it is becoming a structurally more profitable business. We believe its share price remains undervalued.

Glenveagh is one of the biggest homebuilders in Ireland. No, this is not just another cheap homebuilder favored by value investors. Ireland remains one of the fastest growing, if not the fastest, European countries, thanks to a favorable tax regime and demographic tailwind. Like some other developed countries, Ireland is experiencing a housing shortage. However, Ireland's case is particularly extreme in that available supply is only a fraction of what's needed. Stringent planning and zoning regulations put in place after the 2008 financial crisis certainly didn't help. There was a sigh of relief for the industry during the quarter when a new housing policy was announced. Certain development levies will be removed in the coming year in order to encourage supply. Moreover, Glenveagh's interim trading update at its annual shareholder meeting (AGM) was also reassuring. With double-digit growth prospects over the next several years, a balance sheet that is close to net cash despite management's decision to buy back around 30% of its shares outstanding over the past two years (we're awed by this, to say the least) and a share price still trading below net asset value, we believe Glenveagh remains a compelling name to own.

M&C Saatchi and Sato were the two biggest detractors. These two are also among our top ten positions.

M&C Saatchi is a UK-based advertising agency. As our largest position by a meaningful margin since inception, it can often have significant performance impact in any given period. While it was the top contributor in the prior quarter, it became the largest detractor this quarter. The company issued a trading statement during its AGM in mid-June, where it guided down full-year revenue prospects to a small year-over-year decline due to muted global advertising spending, particularly by technology customers who are pulling back on customer acquisition spend. Saatchi maintained its full-year double-digit profit growth guidance thanks to its ongoing cost-cutting program, which remains on track. The AGM also ushered in a new board chair whom we mentioned positively in our commentary last quarter. Nevertheless, the share price reacted negatively to the company's softer top-line guidance. Our long-term view of the business remains unchanged, and we've added to the position.

Sato, based in Japan, is one of the largest barcode printer manufacturers in the world. We bought the stock in late 2022. Its share price has done a round trip so far this year—it went up in Q1 and fell back down in Q2 to around our initial purchase price. The company issued weaker-than-expected full-year earnings, due to softer domestic printer sales. Sato's business in the US and Europe held up relatively well, although it is closely monitoring potential macro-related weakness for certain verticals in these markets.

However, the much bigger piece of Sato news, in our opinion, was the CEO transition that took place in April. We met with the new CEO, Hiroyuki Konuma, in Tokyo. Even though the prior CEO was under no pressure to step down due to performance or age (he's not even 60), he decided to voluntarily pass the baton to the younger (age 50) internally promoted CEO in order to accelerate reform and growth. Typically, we would be skeptical of a stated reason like this for a management transition, but our due diligence leads us to believe it is indeed what happened behind the scenes. As part of Sato's public statement on the transition, the incoming CEO even laid out his accomplishments, including growing the company's health care vertical from a very small business to 10 billion yen ($70 million). In Japan, it is rare for an executive to present his own track record upfront and in such a quantitative way, but we applaud the move. And perhaps this is a small sign of how Japan Inc is changing its corporate governance for the better.

Its share price remains undemanding at no more than 10X P/E ex-cash, but cheap valuation alone doesn't get us excited. Rather, we're looking forward to leadership under the new CEO. We've added to the position.

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.

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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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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. **Net cash** is a figure that is reported on a company's financial statements. It is calculated by subtracting a company's total liabilities from its total cash. **Price-to-Earnings (P/E) ex-Cash** is a valuation ratio of a company's current share price excluding cash holdings compared to its per-share earnings.

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