Artisan Global Value Fund

QUARTERLY
Commentary

Artisan Partners Global Funds plc

As of 30 September 2021

For Institutional Investors – Not for Onward Distribution

Investment Process

We seek to invest in high-quality, undervalued companies with strong balance sheets and shareholder-oriented management teams.

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.

Team Overview

Our team has worked together for many years and has implemented a consistent and disciplined investment process. Our team is organized by geographic regions, but within those regions we are generalists who look across all industries. We believe this model enables our analysts to become broad thinkers and gain critical insight across all economic sectors.

Portfolio Management

Daniel J. O'Keefe
Portfolio Manager (Lead)
Managing Director

Michael J. McKinnon, CFA
Portfolio Manager
Managing Director

Investment Results (%)

As of 30 September 2021	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception
			Average Annual Total Returns				
Class I USD—Inception: 01 Mar 2011	**-2.95**	**11.53**	**35.65**	**8.57**	**9.86**	**11.68**	**9.83**
MSCI All Country World Index (USD)	-1.05	11.12	27.44	12.58	13.20	11.90	9.30
MSCI All Country World Value Index (USD)	-1.38	12.55	31.27	6.48	8.38	8.91	6.40
Class I EUR—Inception: 14 Dec 2015	**-0.60**	**17.65**	**37.29**	**8.67**	**9.17**	**—**	**9.06**
MSCI All Country World Index (EUR)	1.25	17.31	28.94	12.66	12.50	—	11.95
MSCI All Country World Value Index (EUR)	0.91	18.83	32.82	6.56	7.71	—	8.05
Class I GBP—Inception: 14 Jun 2016	**-0.39**	**13.20**	**29.85**	**7.39**	**9.01**	**—**	**11.75**
MSCI All Country World Index (GBP)	1.37	12.65	22.19	11.33	12.35	—	14.88
MSCI All Country World Value Index (GBP)	1.04	14.11	25.86	5.30	7.57	—	10.28
Class A USD—Inception: 06 Aug 2013	**-3.16**	**10.78**	**34.46**	**7.64**	**8.92**	**—**	**7.46**
MSCI All Country World Index (USD)	-1.05	11.12	27.44	12.58	13.20	—	10.16
MSCI All Country World Value Index (USD)	-1.38	12.55	31.27	6.48	8.38	—	6.61

Annual Returns (%) 12 months ended 30 September

	2017	2018	2019	2020	2021
Class I USD	**19.99**	**4.20**	**-0.38**	**-5.29**	**35.65**

Source: Artisan Partners/MSCI. Returns for periods less than one year are not annualized.

Past performance does not guarantee and is not a reliable indicator of future results. Performance is NAV to NAV, including reinvestment of dividends and capital gains, if any, and is net of fees and expenses, excluding any subscription or redemption charges which may be levied. At the moment, the Fund does not intend to charge subscription or redemption fees. The Fund may be offered in different share classes, which are subject to different fees, expenses and inception dates (which may affect performance), have different minimum investment requirements and are entitled to different services. An investor cannot invest directly in an index.

Investment Risks: Investments will rise and fall with market fluctuations and investor capital is at risk. Investors investing in funds denominated in non-local currency should be aware of the risk of currency exchange fluctuations that may cause a loss of principal. These risks, among others, are further described on the last page, which should be read in conjunction with this material.

Performance commentary is provided in relation to the Fund's USD share class.

Market Overview

Choosing topics for our quarterly letters isn't always straightforward. But this quarter, thankfully, the subject matter practically pulls up a chair at my desk and grabs the keyboard—I-N-F-L-A-T-I-O-N! Oh, and let's not forget, C-H-I-N-A.

Prices of just about everything are rising. Do we need the qualifier, *just about everything?* We can't think of a single thing that costs less these days. And our readers are likely of the same mind. Recent polls in the US listed inflation as the electorates' largest concern—and with good reason. Price increases are exceeding wage gains, and therefore real wages are falling. Said another way, most people are getting poorer despite a very strong economy. For a world that has seen mostly low inflation or disinflation for the past few decades, this is a shock to the system. It is upending the economy and rippling through the stock market. Consider what has happened in two of the most difficult and competitive industries around. The auto industry, long the poster child for chronic excess capacity and price competition, now has pricing power because there simply is no available inventory. Same with the apparel industry. Markdowns and inventory write downs at apparel retailers are scarce and margins are as strong as we have ever seen in many cases. And the energy industry, one of the most painful and difficult industries in the past twenty years, is having a bit of a renaissance—we will discuss later when we review our recent investment in Royal Dutch Shell.

What we are experiencing is a supply-side crunch, something we have never seen before—at least not in our careers. Consumers have record levels of cash due to generous government support during the pandemic and fewer opportunities to spend it due to pandemic-induced restrictions. Now that things are opening up, the economy can't satisfy demand for a whole number of reasons, the largest being labor shortages. In the US today, there are roughly 1.4 job openings for every unemployed individual in the country. Similar shortages exist in other economies as well. Workers seem to have gotten used to staying home, and the economic support from government programs has made it financially painless to do so. And they aren't coming back, whether that's because they don't need the money; or they are afraid to assimilate back into the workforce; or they don't have childcare that allows them to go back to work; or some combination of all of the above.

Central bankers tell us all of this is transitory. Though their definition of transitory seems to stretch with every passing day. They argue that supply will rise to meet demand and inflationary pressures will fade as workers come back to the office, the shop floor and the docks. Perhaps. The risk is that the wage levels required to induce workers will continue to press higher and create a wage inflation spiral. One thing we must note: GDP in the US has recovered to pre-pandemic levels despite millions of workers sitting on the sidelines. That's largely due to the government's enormous borrowing and spending as well as the Federal Reserve's massive money printing. But it has also been enabled by the productivity gains of the IT revolution, Zoom being a great example. These productivity gains have helped suppress inflation for decades, and they may very well continue to do so post pandemic. Time will tell.

What does the stock market think? It depends on the day of the week. In the first quarter of this year, the market favored the economically sensitive or cyclical industries that are the hunting grounds of most value investors. Growth darlings regained momentum as the Fed sold hard its "transitory" inflation narrative, and assumptions of low inflation and low rates regained widespread acceptance. In the last couple of weeks, favor seems to have shifted back to value as the transitory assumption seemed harder and harder to justify in the face of persistent signs of inflation. Indeed, interest rate rises are now looming on the horizon in the UK as well as the US. This upcoming earnings season is going to be very interesting. We will gain insight into how companies are balancing the incredible demand driving a strong revenue environment with the inflationary pressure on costs.

And we mustn't forget China. Most markets around the world were flattish. The US was up a smidge, Europe up a smidge in local currency and Japan actually up mid-single digits, recovering some recent underperformance versus the rest of the world. But China was down 18% in local currency, and the widely owned bellwether technology giants were down much more than that, including our stake in Alibaba.

A few factors are at work here. Another COVID-19 wave is slowing the Chinese economy after a swift rebound in the back half of 2020 and early 2021. The imminent collapse of Evergrande, a large real estate developer, has also rattled markets. But most importantly, President Xi Jinping and the Communist Party have taken a more assertive regulatory tone that has spooked investors. For example, China's government issued regulations in July that essentially wiped out the entire for-profit education industry overnight. In so doing, China damaged its implicit contract with capital markets and triggered severe reactions from investors as they extrapolated these actions to other industries. The impact on the technology industry was particularly acute, as the government was already in the process of issuing new regulations for technology firms. These regulatory interventions have reminded investors that the Chinese government can in effect do whatever it wants. Some prominent investors proclaimed in effect that China is now un-investable. We disagree.

First, let's acknowledge that investing in China has always had inherent risks. The governance structures are often misaligned with minority shareholder interests. The accounting can be unreliable. The regulatory environment is nascent and evolving with a dearth of reliable legal guideposts or appeals. For these reasons, China has never been a meaningful weighting in our portfolio. We began to purchase Alibaba—our sole China holding—last quarter after the regulatory crackdown on technology firms had sent Alibaba's share price skidding.

We hold a fairly nuanced position on recent government actions in China. The Big Tech regulations coming out of Beijing are arguably sensible and certainly not irrational. Regulations have centered around market dominance, monopolistic business practices, anti-competitive acquisitions, data security and compensation for gig-workers. These are all legitimate issues that regulators around the

world are also grappling with and could result in a more stable industry long term.

In fact, we find many parallels between the new regulations in China and those being discussed in the West. The anti-monopoly actions in China are similar to anti-trust actions currently being litigated in the US. China's Personal Information Protection Law has echoes of Europe's General Data Protection Regulation (GDPR) legislation. The actions taken on behalf of gig-workers in China are addressing issues also raised by California's failed Prop 22 last year.

In many ways, the anti-Big Tech rhetoric coming from US politicians and regulators could even be viewed as more alarming. US Senator Ted Cruz has described the industry as being "drunk on power." Current FTC Chairwoman Lina Kahn has suggested a public utility model for Internet companies that would require them to provide non-discriminatory access to their platforms.

Even the extreme actions taken against the for-profit education sector have parallels with actions taken in the US. Grizzled market observers like ourselves will recall the Obama administration implementing sweeping regulatory reforms in 2015 that sent the shares of for-profit education companies down 80-90%. Important differences exist between the two events, but China is not the first country to crack down on the for-profit education industry.

The big difference, of course, is that China's regulatory tools are far more efficient, with little legal precedent or reliable legal guideposts. Big changes to laws and regulations move slowly in democratic societies, and the West has struggled to piece together regulatory frameworks for Big Tech. Meanwhile, China's government can implement them with blistering speed and resolve. Each model has its pros and cons, but we haven't seen much coming out of Beijing that hasn't been also proposed by politicians or regulators in the West.

Portfolio Discussion

Our top contributors to performance this quarter were Alphabet, Booking Holdings and Marsh & McLennan.

Alphabet stock rose 9% this quarter. Results for the second quarter were simply incredible. Revenue was up nearly 60% year over year which was down 2% due to COVID-19 induced economic weakness. Still, on a two-year basis (compared to 2019) revenue grew more than 25% annualized. For a business that generates more than $60B of revenue per quarter, the growth is extraordinary. Revenue has not grown this quickly since 2013 when the company was much smaller. Businesses are returning with vigor to the advertising market, and digital marketing is clearly their preferred outlet. Profits tripled with the EBIT margin almost doubling from 17% to more than 30%. The stock is no longer obviously undervalued, but the growth, the duration of that growth and a reasonable cash adjusted valuation continue to offer us good value.

Booking Holdings stock was up 8%. Travel is perhaps the only remaining area of the economy that remains depressed compared to the pre-pandemic period. International travel is barely possible at worst or extremely difficult at best due to restrictions and vaccine requirements. Domestic travel is farther along the recovery path but has been slowed by the surge of the delta variant. Revenue for Booking remained more than 40% down in the recent quarter compared to the same pre-pandemic quarter two years ago. And profitability remains extremely depressed. We estimate an underlying EBIT margin of low single digits in the recent quarter compared to margins in the 30s before the pandemic. So while the results themselves were not great, they held some encouraging signs about the future. Gross room night bookings were down just 12% versus pre-pandemic, an indication that as restrictions ease, there is enormous pent-up demand for travel. It may be difficult to imagine right now, but there is a strong argument to be made that once all restrictions come down and the virus goes endemic, travel will surpass pre-pandemic levels.

Marsh & McLennan stock was also up 8% on strong results. Revenue grew at a double-digit rate, and margins expanded meaningfully. Last year's comparison was soft (revenue down 2%), but Marsh is performing strongly even on a two-year basis compared to pre-pandemic. This is due to the economic recovery but also due to the disruption of the failed merger between its two largest competitors, Aon and Willis Towers Watson, in our view.

Our largest detractors this quarter were Alibaba, Samsung and Novartis.

Alibaba declined about 35% during the quarter. We purchased shares only just last quarter and were immediately hit with a major decline. And this is after the stock was already down by about 50% from its highs at the time we made our initial investment. We added aggressively to our position.

The valuation is simply hard to ignore. We estimate that the core business is trading at 12X unlevered earnings—an exceptional value for a market-leading company with secular growth. Importantly, this embeds significant ongoing losses in new business initiatives that are reducing profits by around -40%. Put another way, the profits would be 70% higher if these loss-making initiatives fade, scale or eventually become profitable.

The risk, of course, is China's uncertain regulatory environment. As outlined above, we believe that the proposed regulatory interventions have been mostly rational and in-line with what is being discussed in other parts of the world. Alibaba's business primarily operates in uncontroversial areas like e-commerce, logistics and outsourced IT infrastructure, which should be reasonably aligned with the government's social objectives. This contrasts with some other areas like video games, news feeds and celebrity-driven content, which are being directly targeted by some of the government's more paternalistic actions. While we fully expect new regulations to impact Alibaba, we do not believe its business value will be impaired.

There are clearly major uncertainties and unknowns. We feel we are being compensated through multiple layers of safety due to the valuation, the potential for ongoing embedded losses to fade, the net cash balance sheet and the underlying growth in the business.

Samsung shares declined 13% during the quarter despite very strong business performance. Profits are near an all-time high and have risen 34% year to date. The primary reason for the weak share price performance is a concern that the market for memory semiconductors is at its peak. Our research suggests otherwise. Demand for memory products remains strong across most end-markets. Customer inventory levels are reasonable, and supplier inventories across the industry are very low. We expect pricing to remain stable through the end of the year and into 2022. The core of our investment thesis revolves around the industry structure for memory chips. There are three players in this industry, all of whom are operating rationally and working to match supply with demand. We believe that this will mute the historical boom and bust cycles of the memory industry. Samsung is trading at 6-7X EBIT, which remains an exceptional value in all but the most dire scenarios for the cycle.

Novartis declined 10%. Second-quarter results were fine but not great. So far in 2021, Novartis has seen low single-digit growth in operating profit, below what we estimate to be the growth trend for its portfolio. The company is suffering from COVID-19 related distortions. Hospital visits and doctor visits are in many cases being deferred as the health system focuses on COVID-19 and as patients stay away from hospitals for anything but urgent care. Areas such as oncology, dermatology and ophthalmology are bearing the brunt of this. We expect that as COVID-19 recedes and people's health care consumption patterns normalize, Novartis' results will revert to the underlying demand for its products. The stock is very cheap at 12X earnings with a nearly 4% dividend yield. We increased our position during the quarter.

We added two new holdings to the portfolio this quarter—Koninklijke Philips and Royal Dutch Shell.

Philips is a global medical device manufacturer and what we consider to be one of the best companies in Europe. Under the tenure of current CEO Frans Van Houten, the company has transformed from an unwieldy conglomerate that included domestic appliances, light bulbs, semiconductors and health care. In 2011, the company generated 23B euros in revenue, grew at low single digits and earned a 5% adjusted EBIT margin. The health care business, which is 100% of the company today, was 11B of that revenue. It is now more than 17B, growing at mid-single digits and earning a 13% adjusted EBIT margin. It is a leader in a number of areas including diagnostic imaging, image guided therapy, patient monitoring, respiratory care and personal health care.

The valuation is attractive. Philips trades for a high teens multiple of earnings while its peers trade in the twenties. It has a strong balance sheet and importantly, a significant margin gap relative to its most comparable competitors. The company has the objective to close that gap and has a very successful track record of margin expansion. On a "normalized" margin basis, the stock trades for about 15X our estimate of earnings, a very undemanding valuation for such an attractive and growing business.

The stock trades where it does for a reason. In April of this year, Philips disclosed a potential problem with its CPAP machine, the Dream Station. CPAP machines are worn at night to create a steady flow of air into the lungs of sleep apnea sufferers. The company received a very small number of complaints that the sound abating foam inside the machine was degrading into particles and inhaled by users. Philips initiated a recall of the machines in order to replace the foam inside the machine or to offer a replacement, next-generation machine. The stock price fell from more than 50 euros per share to under 40 euros where we began to accumulate a position. The loss in market value amounted to more than 10B euros, more on a relative basis if we consider that Philips' peers have appreciated in value since April.

There are two issues with respect to this recall. First is the risk to the long-term earnings power of the sleep franchise. The sleep business is about 7% of revenue, with around half coming from the sale of new systems. The remainder is derived from the sale of consumables such as masks and hoses. There are essentially only two players in this market, Philips and ResMed. Philips' market share has collapsed during this recall period because it is not currently selling machines to new users as it dedicates all its capacity to repairing and replacing existing units. We believe that Philips will recover essentially all of its lost share once the recall is complete and the next version of the machine is back in the marketplace. Our confidence is based on the market structure. CPAP machines are sold exclusively through durable medical equipment (DME) distributors. Prescribing doctors and DMEs choose the brand and model, not the end user. We believe that so long as Philips executes well on this recall and successfully transitions to its new machine, doctors and DMEs will continue to recommend Philip's machines. Moreover, DMEs are not going to accept a monopolistic market structure and are thus incented to support two manufacturers. Therefore, we view the long-term earnings impact from this recall to be small, especially given the fact that the sleep franchise is not a particularly large amount of total revenue.

The much larger issue is the US personal injury litigation risk. Because the foam in the CPAP machines can degrade and release particles and potentially chemicals into the lungs, one could argue for a link between the machine and lung cancer. We have researched this risk in consultation with one of the leading personal injury attorneys in the country. We are comfortable with the risk.

First of all, the number of potential plaintiffs is fairly contained and, upon analysis, can be whittled down dramatically. The installed base of Dream Station units is 3 million to 4 million globally. The relevant number is the machines sold in the US, as this is the only country with large-scale personal injury judgments. We estimate that there have been about 2 million units sold in the US. Lung cancer is the likely cancer that a personal injury attorney would need to link to any chemicals or particles released by the degraded foam. Lung cancer occurs at an annual rate of about 0.09% to 0.38% in the age cohorts that are the most likely users of CPAP machines. Let's take the average of 0.24%. Assuming it takes five years for the foam on old machines to degrade, we assume about 1.2% of the users of these machines might be diagnosed with lung cancer. That's 24,000 individuals.

This potential pool of litigants is likely even further reduced for a number of reasons:

- Smokers and anyone with meaningful health co-morbidities will have a difficult time linking their illness to a CPAP machine rather than their other health problems. Meaningful health co-morbidities are often associated with the need for a CPAP machine.
- Philips CPAP machines are monitored for usage. According to some studies, one-third to one-half of people who have a CPAP machine do not use it because they have never been able to acclimate to the discomfort of wearing a mask while they sleep. The SIM card in the machine will have a record of how much the machine has been used, making it difficult to argue that the machine caused an illness when it was rarely used, which is likely the case in a meaningful percentage of owners.
- Anyone alleging harm may have to produce their machine and have it tested for degradation to prove that dangerous particles and/or gases were released from their specific machine. As machines are repaired or replaced by Philips, it may be harder to prove such degradation.
- Degradation of the foam in the machines appears to be caused by the use of ozone cleaners. Ozone may make the foam degrade 40X faster than normal, which likely explains the degradation seen so far in some machines. Ozone cleaning is not a recommended method of cleaning the machine, and moreover, we believe the number of ozone cleaning kits sold in the US for use with Philips machines is some fraction of the total number of machines sold in the US.

For all these reasons, we think the number of potential viable plaintiffs is fairly small. In addition, the barriers and costs to proving causation are very high, making it an unattractive case for trial attorneys to pursue. And those that do pursue it, face an uphill climb. But for the sake of argument, if there is a class of plaintiffs organized at around the 20,000 number and they do succeed in proving a link between the machine and lung cancer, we don't believe that ultimate cost would be more than 1B to 2B euros. The settlement terms of the recent Bayer litigation over glyphosate (Roundup) and its potential link to cancer amounted to about 74,000 euros per claimant. Using the same metrics amounts to 1.8B euros in the case of Philips. This level of value destruction would not meaningfully change our estimate of value, and Philip's balance sheet can comfortably absorb it. We think the ultimate cost will be lower.

We also acquired shares in Royal Dutch Shell this quarter. Shell is one of the world's largest integrated oil and gas companies headquartered in the Netherlands. Shell is somewhat unique in the industry since a substantial part of its earnings comes from liquified natural gas, where it is the global leader with a 20% market share. It also generates a substantial portion of its earnings from a large global retail operation that consists of 45,000 gas stations across 80 countries.

Our primary attraction to Shell was the valuation. At the time we made our investment, the shares were trading at 8X earnings, a 14% free cash flow yield and a 6% dividend yield. The business has strong cash generation, which is poised to grow nicely at the current oil prices. Shell is returning most of it to shareholders. Over the past three years, Shell has produced $68B in free cash flow. They have paid out $38B in dividends, repurchased $18B in shares, and retired $5B in debt.

It is interesting to compare Shell's valuation to similar companies in the US. While Shell trades at 8X P/E, similar oil companies in the US like Exxon or Chevron trade at 12X-14X earnings. We believe this valuation difference is largely the result of ESG-related pressures, which have been most acute on European oil companies. As a result, European-based oil companies have faced tremendous pressure to pursue net zero commitments, which essentially forces oil companies to signal an exit from their core oil and gas business.

Regardless of one's personal views on the environment and climate change, there simply is no environmental benefit in forcing European domiciled oil companies to divest their fossil fuel assets. Regardless of who owns them, these assets will continue to produce oil until there is a decline in demand—something that we believe is unlikely to happen for more than a decade. Moreover, with strong demand for fossil fuels being a given, any disinvestment in oil producing assets in the West will simply be compensated for by investment in the Middle East, Russia and Venezuela, for example. We are currently reminded in no uncertain terms of the tremendous social benefit of fossil fuels as we watch the energy shocks and shortages spreading around the world.

Given the persistent demand for fossil fuels, companies must pursue a delicate balancing act. On one hand, they have the societal pressure to reduce their environmental impact. On the other, they have the responsibility to maintain an adequate and reliable supply of fossil fuels, until such time that the renewables can actually meet the world's demand for energy.

Shell has put out a detailed plan that allows it to thread this needle. It has an outline to achieve "net zero" by 2050 but will adjust along the way to track the demands from society. It's not an easy dance, but this should satisfy both the environmental push to reduce CO_2, as well as the world's need for reliable and cheap energy in the interim. Along the way, a steady stream of cash will be returned to shareholders—a stream of cash for which we paid a very cheap price.

For more information: Visit www.artisanpartners.com

Investment Risks: 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. Value securities may underperform other asset types during a given period. These risks, among others, are further described in the Fund Documents.

Further details, including risks, fees and expenses, are set out in the current Prospectus, Supplements and Key Investor Information Documents (KIIDs), which can be obtained by calling +44 (0) 20 7766 7130 or visiting www.artisanpartnersglobal.com. Read carefully before investing.

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. These holdings comprise the following percentages of the Fund's total net assets (including all classes of shares) as of 30 Sep 2021: Royal Dutch Shell PLC 1.3%, Alibaba Group Holding Ltd 2.4%, Alphabet Inc 5.1%, Booking Holdings Inc 2.8%, Marsh & McLennan Cos Inc 3.0%, Samsung Electronics Co Ltd 4.9%, Novartis AG 4.7%, Koninklijke Philips NV 2.6%. 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.

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