



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 (% USD)

As of 30 June 2021	Average Annual Total Returns						
	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception ¹
Composite — Gross	5.32	15.65	51.83	12.12	13.36	11.93	9.43
Composite — Net	5.07	15.12	50.43	11.06	12.29	10.86	8.39
MSCI All Country World Index	7.39	12.30	39.26	14.55	14.61	9.89	6.44
MSCI All Country World Value Index	4.84	14.13	38.39	8.37	9.80	6.95	3.90

Annual Returns (% USD) 12 months ended 30 June

	2017	2018	2019	2020	2021
Composite — Gross	23.80	7.29	5.01	-11.58	51.83

Source: Artisan Partners/MSCI. Returns for periods less than one year are not annualized. ¹Composite inception: 1 July 2007.

Past performance does not guarantee and is not a reliable indicator of future results. Current performance may be lower or higher than the performance shown. Composite performance has been presented in both gross and net of investment management fees.

Investment Risks: Investments will rise and fall with market fluctuations and investor capital is at risk. Investors investing in strategies 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 near the back of this document, which should be read in conjunction with this material.



Market Overview

"It all depends on how we look at things, not how they are in themselves."

—Carl Jung

The stock market is at an all-time high. The economy in many parts of the world, particularly the US, is booming. JP Morgan Chase & Co kicked off earnings season reporting that consumer spending on its credit and debit cards is now 22% above pre-pandemic levels. Inflation is surging. June's CPI shows a 5.4% inflation rate, and this is probably understated by at least half given the government's optimistic (i.e., inaccurate) methodology. Nevertheless, the official data shows prices up 10% annualized for the three months ending in May. Gas prices are ahead 45%. Median national rent is up 9%. US housing prices are up 15%, which is the most in 30 years.

Yet central bankers in the world's largest economy remain unperturbed. Monetary policy is pedal to the floor—appropriate perhaps for an economy on life support, but not for "the best economy I have ever seen" according to a trusted CEO of one of our companies. It beggars belief that the Fed continues to buy about \$100bn dollars per month of mortgage backed securities, presumably to support a housing market that is already soaring and pricing many buyers out of the market. And fiscal policy also remains expansionary, with another \$3trn spending bill currently percolating in Congress. We have never in our careers seen monetary and fiscal policy so out of whack with the state of the economy.

But the bond market and the stock market recently seem to be taking their cues from central banker talking points which we could summarize as follows:

- The virus still holds significant risk to the global economy with vaccination rates stalling and cases surging in many parts of the world
- Inflation will prove transitory and return to anemic levels quickly
- Sustained strong economic growth is not likely to persist without continued government support

US Treasuries and interest rates around the world signal economic weakness ahead. Treasuries reversed their recent rise, and yield curves started to flatten again. The real yield on the 10-year US Treasury is now around -4.0%, or much more negative depending on your view of actual inflation. (Put us firmly in the "far more negative" camp.)

Equity investors also fell in line with the central bank outlook. They rotated back to the perceived safety of growth stocks. Big tech drove global equity performance in the quarter. Almost one-third of the MSCI All Country World Index's return was from ten companies—all but one was a US technology company (Nestle being the sole exception).

We say "perceived" because the valuations for many of these companies don't signal safety to us. Valuation matters—or should. To be sure, growing companies are worth more than companies that don't grow—often far more. However, there is a limit to a price that leaves room for a return. Note that the 10 companies that drove the index return this quarter trade at an average valuation of 66X earnings. As Exhibit 1 illustrates, valuations for US technology stocks are now higher than the dot-com era in 1999. Maybe things are different this time. Maybe not.

Exhibit 1: US Tech Valuations Higher Than Dot-Com Bubble



Source: Bloomberg.

As our long-time clients already know, our approach is different. We prefer to manage risk by purchasing quality businesses at a discount to their intrinsic value. We like growth—as is evident in our two most recent purchases outlined below—but we will not overpay for it.

For what it's worth, it appears that we are also less pessimistic on the outlook for the economy than the recent rotation back into growth stocks would suggest. No doubt, the current environment is highly uncertain. There are many possible explanations for the conflicting data we are seeing, and we won't know for sure until it's in the rear-view mirror. But investing is always about making judgement based on an uncertain future. Our approach is to anchor on facts and make a judgement as to which facts matter the most.

We believe there is one set of facts that overwhelms everything else—the size of the government's fiscal and monetary stimulus. This year alone, there have been two pandemic relief packages totaling \$2.8trn. This includes the \$900bn relief package signed by President Trump last December, and the \$1.9trn American Rescue Package signed by President Biden in March. (And as we mentioned above, there is another \$3trn spending package being discussed.)

Compare this number to the current output gap—the difference between actual and potential GDP. In laymen's terms, the output gap measures the hole in the economy that the stimulus attempts to fill. The current output gap is estimated to be only \$400bn–\$600bn. In other words, we are throwing \$2.8trn in stimulus at a ~\$500bn hole. Said another way, the stimulus that is now working its way through

the economy is 5X-7X larger than then the problem it's meant to solve.

Incredibly, there is more. There is an estimated \$2.6trn in excess savings that was built up since the start of COVID and is still available to be spent. To make this a little more tangible, look at the most recent quarterly earnings from JP Morgan, which show its cash deposits are up 51% since 2019. JP Morgan has grown its deposit base more in the past 18 months than it did over the last decade.

It's hard to overstate the magnitude of this stimulus, much of which is still in the process of working its way into the economy. In July, the US started monthly payments of \$300 per child to 40 million families as part of the March stimulus bill. This is on top of stimulus checks, unemployment benefits, state and local aid, and other forms of business support. Altogether, it represents an enormous amount of demand creation that should drive a meaningful amount of economic activity.

This demand is hitting the economy at a time when supply is constrained. Factories are still ramping up, inventory levels are low, supply chains are clogged, shipping containers aren't available, restaurants aren't fully staffed, semiconductors are scarce. The list goes on.

It is true that much of these supply-side distortions are temporary and will eventually normalize. But investors too focused on the supply side are missing the elephant in the room—the amount of demand created by this potent combination: the largest peacetime stimulus in history, a hoard of household savings that is sitting on the sidelines, and plenty of juice from central banks.

It's this trifecta that gives us confidence the economy is likely to remain strong for an extended period of time, and we believe our portfolio is well positioned to benefit.

Portfolio Discussion

We made two new investments during the quarter: Alibaba and Nintendo.

Alibaba is China's largest e-commerce and cloud company. Overall retail sales in China are growing 9% per year. Within that, e-commerce penetration is 25% and rising. This creates an e-commerce market growing in the mid-teens. Its cloud business is also a secular grower, driven by rising penetration of outsourced IT infrastructure, like what's happening in the US and Europe.

Alibaba is the dominant player in both markets. Its e-commerce business has massive scale with over 800 million active customers and \$1.1trn in gross merchandise volume. This gives it ~65% market share of e-commerce, and 20% of total Chinese retail spending. This is 3X larger than the second-largest player in China, and more than 2X Amazon's global e-commerce business. In cloud, Alibaba has a 42% market share, which again is 3X the second-largest player in China,

and makes Alibaba's cloud business the third largest globally, after Microsoft and Amazon.

There is a strong moat around the business which comes from its scale and the network effects endemic to marketplace e-commerce businesses.

The current profitability is burdened by a slew of loss-making investments. These include investments in traditional retail, food delivery, international markets in Southeast Asia, logistics and others. These have served to significantly depress the group's margins over the past few years. Despite these investments, the business remains nicely profitable and cash generative.

The shares have been pressured by concerns of regulatory actions and competition. Both concerns are valid, and profits won't grow this year as a result. But longer-term, we believe profit growth is inevitable given the market growth and Alibaba's market positions. There is potential to grow faster than the market by increasing the take-rate from ~4% today (about 1% commission and 3% advertising) to closer to global norms. For context, we estimate Amazon's take-rate is closer to 30%—this includes 8%-15% commission rates, additional services (logistics, storage and other) and advertising of 4%-7%. While the take-rate isn't perfectly comparable for several structural reasons, there should be room for Alibaba's to rise. In addition, the investment losses should eventually fade (or at least scale), which would improve profits.

Given the sprawling business and numerous loss-making investments, the valuation is not straightforward. We estimate we're paying somewhere between ~15X-20X unlevered earnings. This valuation embeds ~\$10bn in ongoing losses, which provides a margin of safety for regulatory actions and option value if some of these initiatives end up becoming successful. There is additional margin of safety in the balance sheet, with \$140bn in cash and investments that represents ~25% of the market capitalization.

Nintendo is a Japanese video game company. It owns one of the best collections of intellectual property in the video game industry. This includes durable franchises with global appeal like Mario, Pokémon, the Legend of Zelda and Animal Crossing.

The global video game market is ~\$175bn and growing as video games take share of consumer entertainment spending. Nintendo currently participates mostly in the ~\$50bn console segment, which grows mid-single digits, but it also has initiatives in other areas of the market.

Nintendo is somewhat unusual in the industry in that it is vertically integrated. It produces both video game consoles and software, mostly based on its own intellectual property (i.e., not licensed). Historically, Nintendo has been a leader in both due to innovative hardware and a strong intellectual property portfolio that allows it to

consistently introduce popular games. We believe there are multiple levers for diversifying the business and improving profitability.

In the past, the business has been highly cyclical around new console launches. We believe this is changing. Nintendo's current console, Switch, has been extremely successful. It has sold 85 million units since launching in 2017 and is on track to reach over 100 million units this year. Management is focused on extending the lifecycle of the Switch. This will transform what is historically a boom-and-bust business model to a more stable installed base model, into which Nintendo can sell more video game content. Profitability should rise since selling video game content is far more profitable than selling consoles—especially if it's done via online or downloadable format. In addition, the company appears to be taking steps to further monetize its IP through movies, theme parks and mobile gaming.

We compare the evolution of the console market to the evolution of the smart phone market in the past several years. Smart phone sales used to fluctuate wildly with large cycles of obsolescence and innovation. As innovation has slowed and become more evolutionary, the business has become much more stable. We think the console market is going through a similar evolution.

Nintendo's valuation doesn't reflect any of these improvements in the company's business model. The shares trade at 12X 2021 unlevered earnings. The balance sheet is flush with \$18bn of net cash, which is equal to 25% of the market capitalization. Management has acknowledged it has too much cash and has discussed the potential for share repurchases. In the meantime, the dividend yield is 3.5%.

We exited our investments in FedEx and Cognizant during the quarter. FedEx shares reached our estimate of intrinsic value.

Cognizant was a mistake that we were fortunate to exit with a profit. We acquired the shares with the expectation that a new CEO would be able to turn around the business. Over our holding period, the company has persistently underperformed the market and its peers. Indeed, in the most recent quarter the company's revenue and performance gap widened to the levels we saw before the new CEO joined—and this is after significant capital deployed in acquisitions and restructuring. The business is in much worse shape than we would have expected this far into the strategy, and we have lost confidence in the CEO's ability to execute on his turnaround plan.

The largest contributors during the quarter were Richemont, Alphabet and Facebook.

Richemont shares rose 26% during the quarter after reporting excellent earnings that demonstrated accelerating momentum across its business, and particular strength in its jewelry maisons, which are now solidly above 2019 levels. The business performance is very strong, but there is still work to be done to realize full value in the online and non-jewelry businesses.

Alphabet and Facebook each rose about 18% in Q2. Both companies started off the quarter by reporting very strong earnings, driven by a strong rebound in online advertising and continued strength in e-commerce. Subsequently, they also benefited from the rotation back into growth stocks. Despite increases in their share prices, the companies remain relatively reasonably valued given the long-term growth profile.

The largest detractors from performance during the quarter were Cognizant, Southwest and Booking Holdings.

Cognizant shares declined 9% after reporting poor Q1 earnings with organic growth that continued to lag competitors and a reduced profitability outlook. The company has failed to show progress on its turnaround, and our conversations with management failed to give us confidence that this would change. As noted above, we since exited this position.

Southwest and Booking Holdings declined 13% and 6%, respectively. Both companies were affected by coronavirus variants causing rising case counts in many parts of the world. To be sure, unlocking travel is tightly connected with the path of the virus. While it might take a bit longer to realize a full rebound in travel, there is clear evidence of strong underlying demand, and we remain confident in the eventual earnings power for both Booking Holdings and Southwest.

ARTISAN CANVAS

Timely insights and updates from our investment teams and firm leadership

Visit www.artisancanvas.com

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 Artisan Partners Form ADV, which is available upon request.

Unless otherwise indicated, the Artisan Strategy characteristics relate to that of an investment composite or a representative account managed within a composite. It is intended to provide a general illustration of the investment strategy and considerations used by Artisan Partners in managing that strategy. Individual accounts may differ, at times significantly, from the reference data shown due to varying account restrictions, fees and expenses, and since-inception time periods, among others. Where applicable, this information is supplemental to, and not to be construed with, a current or prospective client's investment account information. References to individual security performance relate to a representative account in the composite. Individual holding periods may differ.

Securities referenced may not be representative of all portfolio holdings. Securities of the same issuer are aggregated to determine a holding's portfolio weight. Portfolio statistics calculations exclude outlier data and certain securities which lack applicable attributes, such as private securities. Artisan Partners may substitute information from a related security if unavailable for a particular security. This material is as of the date indicated and is subject to change without notice. Totals may not sum due to rounding.

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.

Net-of-fees composite returns were calculated using the highest model investment advisory fees applicable to portfolios within the composite. Fees may be higher for certain pooled vehicles and the composite may include accounts with performance-based fees. All performance results are net of commissions and transaction costs, and have been presented gross and net of investment advisory fees. Dividend income is recorded net of foreign withholding taxes on ex-dividend date or as soon after the ex-dividend date as the information becomes available to Artisan Partners. Interest income is recorded on the accrual basis. Performance results for the Index include reinvested dividends and are presented net of foreign withholding taxes but, unlike the portfolio's returns, do not reflect the payment of sales commissions or other expenses incurred in the purchase or sale of the securities included in the indices.

MSCI All Country World Index measures the performance of developed and emerging markets. MSCI All Country World Value Index measures the performance of companies across developed and emerging markets that exhibit value style characteristics according to MSCI. The S&P 500[®] Information Technology Index is a capitalization-weighted index comprised of companies in the S&P 500[®] Index that are further classified members of the GICS Information Technology sector.

The S&P 500[®] ("Index") is a product of S&P Dow Jones Indices LLC ("S&P DJI") and/or its affiliates and has been licensed for use. Copyright © 2021 S&P Dow Jones Indices LLC, a division of S&P Global, Inc. All rights reserved. Redistribution or reproduction in whole or in part are prohibited without written permission of S&P Dow Jones Indices LLC. S&P[®] is a registered trademark of S&P Global and Dow Jones[®] is a registered trademark of Dow Jones Trademark Holdings LLC ("Dow Jones"). None of S&P DJI, Dow Jones, their affiliates or third party licensors makes any representation or warranty, express or implied, as to the ability of any index to accurately represent the asset class or market sector that it purports to represent and none shall have any liability for any errors, omissions, or interruptions of any index or the data included therein. The index(es) are unmanaged; include net reinvested dividends; do not reflect fees or expenses; and are not available for direct investment.

MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used to create indices or financial products. This report is not approved or produced by MSCI.

The Global Industry Classification Standard (GICS[®]) is the exclusive intellectual property of MSCI Inc. (MSCI) and Standard & Poor's Financial Services, LLC (S&P). Neither MSCI, S&P, their affiliates, nor any of their third party providers ("GICS Parties") makes any representations or warranties, express or implied, with respect to GICS or the results to be obtained by the use thereof, and expressly disclaim all warranties, including warranties of accuracy, completeness, merchantability and fitness for a particular purpose. The GICS Parties shall not have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of such damages.

This summary represents the views of the portfolio manager as of 30 Jun 2021. Those views and portfolio holdings are subject to change and Artisan Partners disclaims any obligation to advise investors of such changes. The discussion of portfolio holdings does not constitute a recommendation of any individual security. For a complete list of holdings by contribution to the strategy, refer to the Contributors to Return chart.

Market Cap is the aggregate value of all of a company's outstanding equity securities. **Price-to-Earnings (P/E) Ratio** measures how expensive a stock is. Earnings figures used for FY1 and FY2 are estimates for the current and next unreported fiscal years. **Price-to-Sales** is a valuation ratio of a company's current share price compared to its per-share sales.

This material is provided for informational purposes without regard to your particular investment needs. This material 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. In no event shall Artisan Partners have any liability for direct, indirect, special, incidental, punitive, consequential (including, without limitation, lost profits) losses or any other damages resulting from the use of this material.

Artisan Partners Limited Partnership (APLP) is an investment adviser registered with the U.S. Securities and Exchange Commission (SEC). Artisan Partners UK LLP (APUK) is authorized and regulated by the Financial Conduct Authority and is a registered investment adviser with the SEC. APEL Financial Distribution Services Limited (AP Europe) is authorized and regulated by the Central Bank of Ireland. APLP, APUK and AP Europe are collectively, with their parent company and affiliates, referred to as Artisan Partners herein. Artisan Partners is not registered, authorised or eligible for an exemption from registration in all jurisdictions. Therefore, services described herein may not be available in certain jurisdictions. This material does not constitute an offer or solicitation where such actions are not authorised or lawful, and in some cases may only be provided at the initiative of the prospect. Further limitations on the availability of products or services described herein may be imposed.

This material is only intended for investors which meet qualifications as institutional investors as defined in the applicable jurisdiction where this material is received, which includes only *Professional Clients* or *Eligible Counterparties* as defined by the Markets in Financial Instruments Directive (MiFID) where this material is issued by APUK or AP Europe. This material is not for use by retail investors and may not be reproduced or distributed without Artisan Partners' permission.

In the United Kingdom, issued by APUK, 25 St. James's St., Floor 3, London SW1A 1HA, registered in England and Wales (LLP No. OC351201). Registered office: Reading Bridge House, Floor 4, George St., Reading, Berkshire RG1 8LS. In Ireland, issued by AP Europe, Fitzwilliam Hall, Fitzwilliam Pl, Ste. 202, Dublin 2, D02 T292. Registered office: 70 Sir John Rogerson's Quay, Dublin 2, D02 R296 (Company No. 637966).

Australia: This material is directed at wholesale clients only and is not intended for, or to be relied upon by, private individuals or retail investors. Artisan Partners Australia Pty Ltd is a representative of APLP (ARBN 153 777 292) and APUK (ARBN 603 522 649). APLP and APUK are respectively regulated under US and UK laws which differ from Australian laws and are exempt from the requirement to hold an Australian financial services license under the Australian Corporations Act 2001 in respect to financial services provided in Australia.

Canada: This material is distributed in Canada by APLP and/or Artisan Partners Distributors LLC, which conduct activities in Canada under exemptions from the dealer, portfolio manager and investment fund manager registration requirements of applicable Canadian securities laws. This material does not constitute an offer of services in circumstances where such exemptions are not available. APLP advisory services are available only to investors that qualify as "permitted clients" under applicable Canadian securities laws.

© 2021 Artisan Partners. All rights reserved.

For Institutional Investors – Not for Onward Distribution



Artisan Global Value Strategy

Quarterly Contribution to Return (% USD)

As of 30 June 2021

Top Contributors	Average Weight	Contribution to Return	Ending Weight
Cie Financiere Richemont SA	3.81	0.88	3.77
Alphabet Inc	4.46	0.76	4.66
Facebook Inc	4.06	0.69	4.53
American Express Co	3.54	0.54	3.69
Marsh & McLennan Cos Inc	2.59	0.38	2.72
The Bank of New York Mellon Corp	3.83	0.34	3.92
Anthem Inc	4.76	0.32	4.65
Imperial Oil Ltd	1.35	0.31	1.34
Novartis AG	4.75	0.29	5.05
Berkshire Hathaway Inc	3.22	0.27	3.19
Danone SA	3.88	0.21	4.55
Lloyds Banking Group PLC	1.80	0.20	1.81
Groupe Bruxelles Lambert SA	1.82	0.18	1.84
Compass Group PLC	3.78	0.16	3.68
Advance Auto Parts Inc	1.31	0.15	1.36
BAE Systems PLC	2.29	0.14	2.34
Telefonica Brasil SA	1.36	0.12	1.38
Alibaba Group Holding Ltd	0.83	0.12	2.36

Bottom Contributors	Average Weight	Contribution to Return	Ending Weight
Cognizant Technology Solutions Corp	2.26	-0.30	0.00
Southwest Airlines Co	2.21	-0.29	2.03
Booking Holdings Inc	2.83	-0.16	2.64
Expedia Group Inc	3.29	-0.15	3.12
HeidelbergCement AG	3.62	-0.09	3.39
Citigroup Inc	3.43	-0.06	3.41
Nintendo Co Ltd	2.02	-0.05	2.90
Sodexo SA	0.90	-0.02	0.84
FedEx Corp	0.27	-0.02	0.00
Samsung Electronics Co Ltd	5.47	-0.00	5.52
Cash Holdings	6.40	0.01	6.77
Tesco PLC	1.02	0.01	0.84
DENTSPLY SIRONA Inc	2.67	0.03	2.27
NXP Semiconductors NV	2.31	0.05	1.54
UBS Group AG	3.44	0.05	3.33
The Progressive Corp	2.14	0.07	2.23
Visa Inc	0.80	0.08	0.82
ING Groep NV	1.51	0.12	1.52

Source: Artisan Partners/FactSet. Performance is historical and is not a reliable indicator of future results. As of 30 Jun 2021. These investments made the greatest contribution to, or detracted most from, performance during the period based on a representative account within the strategy Composite. Upon request, Artisan will provide: (i) the calculation methodology and/or (ii) a list showing the contribution of each holding to overall performance during the measurement period. Securities of the same issuer are aggregated to determine the weight in the portfolio. % Contribution to Return is calculated by FactSet by multiplying a security's weight in the portfolio by its in portfolio return for the period referenced and does not take into account expenses of the portfolio. Purchases/sales are accounted for by using end of the day prices, which may or may not reflect the actual purchase/sale price realized by the portfolio.