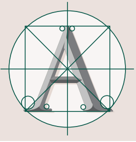


Artisan Global Equity Strategy

QUARTERLY
Commentary

As of 30 June 2023

Investment Process

We seek to invest in companies, within our preferred themes, with sustainable growth characteristics at attractive valuations that do not fully reflect their long-term potential.

Themes

We identify long-term secular growth trends with the objective of investing in companies that have meaningful exposure to these trends. Our fundamental analysis focuses on those industry leaders with attractive growth and valuation characteristics that will be long-term beneficiaries of any structural change and/or trend.

Sustainable Growth

We apply a fundamental approach to identifying the long-term, sustainable growth characteristics of potential investments. We seek high-quality companies that typically have a sustainable competitive advantage, a superior business model and a high-quality management team.

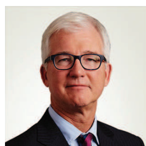
Valuation

We use multiple valuation metrics to establish a target price range. We assess the relationship between our estimate of a company's sustainable growth prospects and its current valuation.

Team Overview

Our team approach combines the benefits of strong leadership with the creative ideas of a deep and highly experienced team of research analysts. We believe this approach allows us to leverage a broad set of perspectives into dynamic portfolios.

Portfolio Management



Mark L. Yockey, CFA
Portfolio Manager

Charles-Henri Hamker
Portfolio Manager

Andrew J. Euretig
Portfolio Manager

Michael Luciano
Associate Portfolio Manager

Investment Results (% USD)

			Average Annual Total Returns				
As of 30 June 2023	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception[1]
Composite — Gross	**-0.19**	**4.90**	**15.97**	**3.76**	**7.36**	**9.40**	**10.94**
Composite — Net	**-0.42**	**4.43**	**14.95**	**2.85**	**6.39**	**8.37**	**9.88**
MSCI All Country World Index	6.18	13.93	16.53	10.99	8.10	8.75	8.32

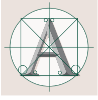
Annual Returns (% USD) 12 months ended 30 June

	2019	2020	2021	2022	2023
Composite — Net	**12.62**	**11.24**	**33.88**	**-29.31**	**14.95**

Source: Artisan Partners/MSCI. Returns for periods less than one year are not annualized. [1]Composite inception: 1 April 2010.

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.



Investing Environment

Global equity markets rallied in Q2 despite the continued policy rate hikes by still-hawkish central banks resolute in their mission to flatten inflation. While inflation has fallen in recent months, it remains stubbornly high in many countries, pushing up the cost of living and pressuring profit margins.

In the US, a Big Tech rally that began in the beginning of the year strengthened, driving large-cap equity indices higher. Providing support to the rally was a steady economy aided by moderating energy and rent prices, a historically tight labor market and resilient consumer spending.

In Europe, interest rate increases appeared to be having an effect as producer prices fell to levels last seen a year ago. The annual GDP growth rate slowed to 1% in March, part of a slow and steady decline since the end of last year. Looking past the cooldown, the European Central Bank hiked rates twice in succession this quarter and vowed not to capitulate until inflation was reduced to "sufficiently restrictive levels." Interest rates in the euro area are now at their highest level since the 2008 financial crisis. While European stock gains were more subdued than those in the US, most sectors in the MSCI EAFE Index were positive.

In Asia, Japan's recent economic expansion continued to impress investors. The Nikkei Index surged higher this quarter, putting it up more than 27% so far this year and far ahead of US equity markets. Japanese stocks have not seen valuations this high since the early 1990s. Markets were buoyed by healthy economic growth, a weak yen (making exports more affordable), a bullish call from Warren Buffet's Berkshire Hathaway and a new focus on corporate governance led by the Tokyo Stock Exchange. The exchange has encouraged listed companies to offer more buybacks and dividends to shareholders, among other structural changes to reignite investor interest. Along with a growing economy, the focus on profits seems to have kick-started the long-stagnate equity market. In contrast, China's economy continued to be stuck in second gear. China's retail sales were flat, and in manufacturing, new orders were soft, leading to an eight-month low in manufacturer sentiment and falling employment.

Portfolio Activity

The portfolio underperformed its benchmark, the MSCI AC World Index, in Q2 2023. Both stock selection and sector allocation lowered relative performance. Sector and regional positioning played a large role in outcomes for the portfolio this quarter.

In information technology, our below-benchmark weighting reduced relative returns as this sector far outperformed others. In addition, our sector holdings and the timing of some trades detracted from relative returns. Record market inflows into the sector went principally into a relatively small number of US mega-cap stocks. Prospects for an end to interest rate hikes and speculation surrounding generative artificial intelligence (AI) were the primary drivers for this run-up. In addition, we reestablished a position in Microsoft during the quarter, a stock that has appreciated 42% year to date and more than 18% in the quarter. However, we didn't hold the stock for the entire quarter, and our overweight position detracted from relative performance given the different returns generated during the different holding periods of the benchmark and portfolio. Despite this anomaly, we believe Microsoft will generate positive relative returns in future quarters.

In consumer discretionary, our Chinese holdings sold off as investors became increasingly pessimistic about the country's prospects for a strong economic recovery this year. This turn of events was somewhat surprising given that these holdings had posted strong gains in Q4 last year and in the early days of the reopening. However, they fell on evidence the recovery was not as strong or as widespread as investors had anticipated. For Alibaba, deteriorating cloud revenues, tepid gross merchandise volumes and increased competition with short video platforms resulted in further share price erosion. Based on disappointing fundamentals in its core franchises, we exited the position during the quarter. Adding to the weakness, shares of China MeiDong Auto, an automobile dealership and maintenance group, fell after it lowered its revenue and earnings forecasts due to slowing fundamentals and a mild destocking ahead of China's emissions standards upgrade in July. We sold it as well. In restaurants, our holding in Luckin Coffee also fell sharply before recovering somewhat this quarter. The coffee chain recently opened its 10,000th store, overtaking Starbucks as the country's largest retail coffee chain. Like Starbucks, Luckin offers high-quality service, convenience and a branded experience. However, in its strategy to grow market share and keep up with competitors, Luckin reduced its prices and cut its margin and earnings forecast as a result. Accordingly, we cut our target price and exited the position. Similarly, lower-than-expected revenues and demand led us to sell China Tourism Group Duty Free and ANTA Sports Products, companies that were not able to fully execute their business strategies due to the economic environment.

Health care, a defensive sector that often outperforms in a decelerating economy, fell victim to investors' focus on technology. As a result, our above-benchmark weighting became a liability. Additionally, our position in Daiichi Sankyo, a Japanese biopharma company, finished down slightly as investors took some profits after its recent run-up. A weak yen further reduced its performance in US dollar terms. Nevertheless, we continue to have confidence in its line of antibody drug conjugates (ADC) that deliver chemotherapy agents directly to cancer cells, making them more effective and less damaging to healthy cells. Daiichi Sankyo has three ADCs that are either on the market or in testing for different types of breast and lung cancers. We are attracted to innovative biopharma companies like Daiichi Sankyo; they are able to leverage their deep R&D capability to develop several drug candidates from a single body of research, which increases the likelihood of success.

Finally, the portfolio's above-benchmark weighting in Europe, along with our holdings there, also detracted from relative performance.

Higher interest rates, falling economic output and weaker economic data in China tempered equity returns for Europe. China is the European Union's (EU) second-largest export market. The portfolio's other large position, Deutsche Telekom, dipped this quarter after it was reported in the press that DISH Network was discussing a distribution agreement with Amazon.com. Neither company has commented publicly. Deutsche Telekom is a majority owner in T-Mobile US, which provides wholesale 5G services to Dish Wireless. A deal with Amazon could potentially threaten T-Mobile's market position in US wireless service. Given the economics of the situation and T-Mobile's strong competitive advantages over DISH, we believe the share price dip was an overreaction, and that any agreement with Amazon, if true, would not significantly disrupt the current market structure. We remain attracted to Deutsche Telekom's top- and bottom-line organic growth potential, pricing power, accommodative valuation and exposure to T-Mobile.

Conversely, our industrial gas holdings in materials helped counterbalance some of the weak relative positioning. The largest gas supplier in the world, Linde, ended higher on margin improvements across most of its regions, growing dividends and a $50 billion backlog of decarbonization projects. Linde added to its project list by inking an agreement with Dow to supply clean hydrogen to the chemical giant's Fort Saskatchewan location. Under the deal, Linde will design, build and operate a plant that will help the company create the world's first net-zero carbon emissions ethylene processing facility. Doing so would allow Dow to potentially decarbonize up to 20% of its global capacity and increase profits across its value chain by approximately $1 billion. Ethylene is used as a key building block for plastics. The large demand for investment projects like this one gives us confidence in the company's resilient, long-term growth runway. Overall, the company continues to be highly cash generative, benefiting from a diversified revenue stream from essential products. They are sold under long-term contracts containing escalator clauses that protect Linde from rising costs. In addition, shares of Japanese industrial gas supplier Nippon Sanso jumped after it raised prices and its earnings guidance. It is seeing strong demand, particularly in the US and European markets, as the weak yen pushed profits higher. During the quarter, the company reported a 24% year-over-year increase in revenues and a 14% increase in net income in local currency. Nippon Sanso's profitability position improved after it acquired Praxair's European assets as part of a 2018 EU antitrust agreement that allowed Linde to merge with Praxair. Finally, like its industry peer, Air Liquide reported quarterly revenues that surpassed consensus estimates and increased operating margins on the back of price increases. Its backlog of new investment opportunities in green energy is now worth more than €3.4 billion. Like Linde, Air Liquide also benefits from the pricing power it has attained as the second-largest member of an oligopoly. We value Air Liquide's stable cash flow, high barriers to entry and diversified customer base, all of which give this stock a defensive quality, an attractive late-cycle characteristic.

A below-benchmark allocation to energy also made a positive contribution this quarter. After a strong run in 2022 and early 2023, we reduced our exposure to the sector as crude oil prices came down. Energy prices rebounded in April after OPEC+ countries announced a cut to its output starting in May only to fall again on expectations of an economic slowdown, particularly given China's slow reopening. Natural gas prices have followed a similar path downward this year and for the same reasons as oil—namely, questions about future demand. Nevertheless, we continue to be watchful for future opportunities in this sector, especially for companies that support our environment theme.

Lastly, Amazon, the portfolio's largest holding, added to returns. This year's big rebound in Amazon's stock price accelerated in the second half of Q2. During the period, Amazon's e-commerce, cloud and ad products businesses reported year-over-year revenue growth, the latter two by 16% and 21%, respectively. In 2022, the company reported a slowdown in consumer and advertiser spending after it had invested heavily in the COVID-19 reopening by expanding its warehouse operations, leading to a rare net loss of more than $2.7 billion. Since then, Amazon has cut 27,000 employees, which equates to about $6 billion per year in savings. We believe the company will continue to grow into its current capacity over the short and medium term and that its advanced logistics and warehouse automation capabilities will pay off in increased efficiencies over the long term. In addition, Amazon's high-growth, high-margin cloud business, AWS, will likely provide upside support, especially as more customers utilize the AI and machine learning capabilities available via AWS Trainium, a high-performance machine learning training accelerator.

Positioning Activity

Given elevated interest rates, hawkish central banks and gradually decelerating economies, we reinforced our positions in resilient business models—those with the ability to raise prices as needed and generate sufficient levels of cash. We also continued to focus on companies that benefit from the secular growth trends identified in our investment themes, supporting demand generation even late in the business cycle when revenues may be peaking. We think high-quality, deleveraged companies such as these will have an advantage over others because they will be able to self-fund their business activities, benefit from strong organic growth and continue to exploit their market-leading positions. On the flip side, we shed shares of companies that we have found to be overly dependent on uncertain macro environments or those with slowing fundamentals that indicate late-cycle weakness.

One such resilient company is Air Liquide. We added it to the portfolio this quarter, but we've held it in prior periods. As mentioned in the previous section, we believe the France-based industrial gas company provides the portfolio with highly defensible earnings. Its earnings

have declined only twice in the last 45 years. Air Liquide has an impressive product line spread across a highly diversified customer base, both in terms of end markets, such as health care, electronics, materials, food and beverage, and in terms of geography. Like Linde, Air Liquide is not only engaged in reducing its own carbon intensity, but the gas provider is in high demand from customers attempting to reduce their carbon footprints. As a key global player in both hydrogen and carbon capture and sequestration, it is one of the few companies that are in the driver's seat when it comes to decarbonizing entire industries.

Another highly cash-generative company we reinitiated in the portfolio was Microsoft. Despite the modest deceleration of its fast-growing cloud business, which we think will be temporary, we believe Microsoft can grow revenues and expand its margins faster than consensus estimates. It can leverage its programming prowess and market power to bundle new products with mission-critical software across its large enterprise IT footprint, giving it a competitive advantage few other companies enjoy. Furthermore, we believe that companies like Microsoft—those that make up the foundational layer of the public cloud ecosystem—have the huge scale needed to provide the infrastructure to develop, train and utilize large language models. Given these advantages, we think Microsoft is well-positioned to capture a large percentage of new cloud workloads.

In communication services, we added Netflix to the portfolio. We believe over-the-top video (streaming) is at an inflection point as subscriber growth slows further and content costs continue to rise. Netflix leads the industry in revenue and gross profit per subscriber. This gives the company a critical edge over its peers in generating higher free cash flows. We expect Netflix's stock will increasingly trade on its profit margin and free cash flow generation, rather than its net subscriber additions as it has in the past. In the long run, we think Netflix will consolidate its leadership position, providing it with the pricing power and financing needed to manage content economics.

Lastly, another stock that we added to the portfolio was Gerresheimer, a company that develops and supplies medicine packaging and drug delivery devices to the pharmaceutical and biotech markets. In 2019, the company hired a new CEO who shifted the company's strategy to focus on higher value, higher margin products and custom solutions. We expect to see this part of its business grow and help them build longer term customer relationships.

In terms of sales, our largest reduction was our exposure to China. We were disappointed that China's reopening was negatively affected by a challenging macro environment that was difficult to predict. Gross domestic product, retail sales and manufacturing orders, in particular, have shown slower-than-anticipated growth this year, after COVID lockdowns suppressed normal buying habits for almost three years. Importantly, the property sector remains fragile, particularly in lower tier cities, prompting the government to lower interest rates in a move that seems to be propping up a sector that has seen a structural decline. While we exited almost all of our stock positions in China, many of which were mentioned in the previous section, we remain watchful of developments in the world's second-largest economy.

One of the largest positions we exited in China was real estate platform KE Holdings, better known as Beike. While China's real estate sector has been trending downward, the company has been able to increase gross profit by cutting costs and by shifting its revenue mix to higher margin areas of its business, namely existing home sales and home renovations. Unfortunately, aside from a brief uptick in housing prices this year, the market has not recovered, particularly in lower tier cities, where there is a large oversupply.

We sold several positions within our environment/energy efficiency theme as well. One position was Carrier Global, a leading heating, cooling and refrigeration manufacturer. The company is a leader in high-efficiency building solutions, particularly with regard to heat pumps. The company executed well during our holding period. We sold the position as the stock approached our target valuation. We also exited Rockwool, a manufacturer of stone wool, an energy-efficient material that significantly reduces building emissions, which is one of the largest contributors to climate change. The company was hurt by a decline in residential and commercial new building activity, which was particularly pronounced in Eastern Europe. We also shed NIBE Industrier, a maker of energy-efficient heating systems for industrial and consumer markets, as it approached target valuation. Finally, we exited Darling Ingredients, the largest publicly traded company turning food waste into sustainable products. We sold it on strength as well.

Outlook

In a year that has already revealed many opportunities and challenges, we are excited to see what the second half will bring. Overall, we remain optimistic that fundamentals will play an increasingly important role in equity valuations as investors navigate rising interest rates, additional bouts of volatility and cooling economies. Companies with talented management teams, highly profitable business models and sustainable growth characteristics that are selling at reasonable valuations will likely be rewarded as investors increasingly focus on free cash flow and high-quality earnings. Given this expected shift, we like our chances for success.

When it comes to our durable investment themes, we see increased opportunities in luxury goods. Many of these names continue to beat estimates despite China's weak recovery. Given massive global demographic shifts and the sheer power of these brands, we are now seeing a multiyear acceleration in revenues despite inflation. In our demographics/health care theme, we see value in innovative biopharma companies with strong R&D capabilities and robust drug pipelines that can address a number of indications. These companies offer investors multiple opportunities for success that help cultivate resiliency in their stock prices. In our environment/clean energy theme, we are encouraged by the clean energy projects underway that can improve our portfolio and our planet. Hydrogen, especially,

provides societies with an opportunity to decarbonize a range of industries while tackling various critical energy challenges, including helping to store the variable output of renewables to better match demand. Finally, while we have pared back several of our financial services holdings in recent months, we continue to be on the lookout for companies, particularly those with positive capital return track records, that can benefit from the changing economic landscape in asset management, banking and brokerage services. We believe insurance brokerage, in particular, continues to provide opportunities for durable growth. In these ways, we seek to invest where we see long-term growth.

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For the purpose of determining the portfolio's holdings, securities of the same issuer are aggregated to determine the weight in the Strategy. The holdings mentioned above comprised the following percentages of a representative account within the Artisan Global Equity Strategy Composite's total net assets as of as of 30 Jun 2023: Microsoft Corp 2.5%, Daiichi Sankyo Co Ltd 3.6%, Deutsche Telekom AG 1.9%, T-Mobile US Inc 1.5%, Amazon.com Inc 4.6%, Linde PLC 1.0%, Nippon Sanso Holdings Corp 1.0%, Air Liquide SA 3.0%, Netflix Inc 2.4%, Gerresheimer AG 1.6%. As of 3 Mar 2022, Russian holdings were valued at zero. Securities named in the Commentary, but not listed here are not held in the portfolio as of the date of this report.

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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.

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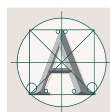
For Institutional Investors – Not for Onward Distribution

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