



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 (% USD)

As of 30 September 2023	Average Annual Total Returns						
	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception ¹
Composite — Gross	-4.68	9.13	22.30	—	—	—	12.58
Composite — Net	-4.26	7.82	20.90	—	—	—	10.41
MSCI All Country World ex USA Small Cap Index	-1.70	5.03	19.01	—	—	—	5.10

Annual Returns (% USD) 12 months ended 30 September

	2019	2020	2021	2022	2023
Composite — Net	—	—	—	-24.39	20.90

Source: Artisan Partners/MSCI. Returns for periods less than one year are not annualized. ¹Composite inception: 1 November 2020.

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.



The Primacy of Doubt

This is the title of a book we read this summer. The subtitle is *From Quantum Physics to Climate Change, How the Science of Uncertainty Can Help Us Understand Our Chaotic World*. We're clearly not going to discuss quantum physics here, but one of the book's central arguments, which deals with uncertainty in weather forecasts, is very much relevant to value investing.

If you ever wonder where the probability figure came from when your phone's weather app proclaims a 60% chance of rain tomorrow, it's largely due to the work of Tim Palmer. He is the book's author and a physics professor at the University of Oxford. Tim, along with his peers, introduced probabilistic analysis into weather forecasting. People the world over now take for granted probability figures attached to major upcoming weather events. Few of them, though, stop to ponder what that probability number means.

What does a 60% chance of rain really mean? If the day turns out to be sunny, was the forecast necessarily wrong? Think of a more familiar scenario: If you toss a loaded coin with a 60% chance of turning up heads, there's still a 40% chance your next toss turns up tails. If you repeatedly toss the loaded coin, there's a high certainty that heads comes up roughly 60% of the time and tails comes up 40% of the time. Now we can translate this back to weather forecasting. If the same conditions that impact weather could be repeated in a hypothetical trial, just like repeatedly tossing a coin, then that forecast means 60% of the time it will rain and 40% of the time it will be sunny. The forecast is not necessarily wrong if the event with favorable odds doesn't transpire.

Similarly, investing is fundamentally a probabilistic exercise, as the future is inherently uncertain. Every stock we pick is based on probabilities. What's different from company to company is the probability we attach to a sunny outcome, the event where a business successfully compounds its value over time at a healthy rate. We often mention our four key investment tenets: good business, good management, good balance sheet and good price. There's a good reason for that—we believe the presence of all four tenets simply maximizes our odds of a sunny outcome.

Moreover, in our investment strategy, we're only trying to get involved in scenarios where wrong decisions likely result in only minimal capital loss. It's heads we win, tails we don't lose much. In weather parlance, we try to build a portfolio filled with long-range forecasts of more sun than rain. And if there is rain, it's more likely to be a drizzle than a downpour. This is made possible when you have all four tenets.

What We Bought and Sold in the Quarter

We initiated a position in Italy-based Sesa. Sesa is the largest Italian information technology (IT) distributor with roughly half of the domestic market share. In the faster growing cloud and enterprise

software business, its share is close to two-thirds. It's been able to steadily gain market share in the past decade through superior organic execution and bolt-on acquisitions.

Whenever investors discuss a distributor business model, two questions should immediately come to mind. First, whose products are they distributing? In Sesa's case, it distributes products, primarily software rather than hardware, on behalf of IT vendors such as Cisco, Oracle, Microsoft and IBM. Compared to hardware, software sales are generally stickier and have a higher margin. Second, who is buying from the distributor? Sesa sells primarily to Italy's small and medium-sized enterprises (SMEs). Its sweet spot is companies with revenue of a few hundred million euros and a few hundred employees. We believe Sesa's SME customers pose a low disintermediation risk. A large enterprise, such as an S&P 500 company, can go directly to IT vendors such as Microsoft. But that is not realistic for an SME as it's not cost efficient for Microsoft to deal directly with a large number of small customers. So, in general, when a market has a fragmented vendor base on one side and a fragmented customer base on the other, there's naturally a value-added role for a distributor to play in the middle. This is exactly where Sesa operates in Italy's IT sector.

However, the emergence of cloud hyper-scalers in the past decade seems to have changed the dynamic described above. With no more than a handful of cloud hyper-scalers, such as AWS or Microsoft Azure, the vendor base is no longer as fragmented. What's the disintermediation risk in the cloud era? We believe a well-run distributor still has a significant value-added role, because Sesa is a bit like Switzerland in that it has no ties to IT vendors. It can play a neutral role in offering an optimal (multi or hybrid-cloud) solution for end customers. If those customers go directly to AWS or Azure, then they run the risk of vendor lock-in, which has been a real and rising risk in recent years.

Sesa is controlled by a few of the founding families, but it is now run by a very able and professional CEO, who has skin in the game through material equity ownership. Another shareholder is Tamburi Investment Partners, a locally listed investment manager that established a minority stake in 2019. Tamburi doesn't act like a private equity shop, as far as we can tell. It has had a good track record of investing in Italian SMEs without taking excessive leverage, and it has held onto many of its investments for a long period of time. We view its presence as a major plus.

Sesa's share price is down nearly 50% since peaking in late 2021, despite its double-digit organic growth rate in recent periods. The market may be concerned about disintermediation risk, but we are still believers for the reasons outlined above. We bought shares at around 13X P/E ex net cash.

We did not sell any names this quarter.

Top Contributors and Detractors

We underperformed our benchmark by over 350bps for the quarter but remain materially ahead of our benchmark year to date. As a reminder, our goal is NOT to outperform every single quarter. Our goal is long-term capital appreciation and outperformance over a multiyear period without taking undue risks.

In order to accomplish this, we allocate capital to businesses trading at a substantial discount to our estimates of their intrinsic values. These discounts can persist or widen as investors bid up other more popular stocks. However, over longer periods of time we believe stock prices and underlying business values must ultimately converge. This has been our experience, and it is the principle that guides us as we continue to execute our time-tested value investment strategy.

Our top two largest contributors in Q3 were Care Ratings and Impro Precision Industries.

Care Ratings is the second-largest credit rating agency in India. It is equivalent to S&P and Moody's in the US. Credit rating agencies play a critical role in the proper functioning of a credit market—they judge the creditworthiness of credit securities such as bonds or bank loans. They effectively give stamps of approval to credit issuers, like banks or corporates. In fact, institutional investors would have little appetite to purchase an unrated credit instrument. The Indian market is dominated by three players—CRISIL (controlled by S&P), Care and ICRA (controlled by Moody's). We consider it a great business because it has a huge barrier to entry with a high return on capital.

Care reported good earnings in the quarter, which contributed to its positive share price performance. But we believe there's also a strong macro tailwind emerging. After suffering from a decade-long slump in capital expenditure (capex), it appears India is finally starting to rev up its capex engine. The country not only needs a lot of infrastructure spending, but it will likely see a surge in new manufacturing capacity due to global geopolitical tensions. More capex means more credit issuances and credit ratings.

Lastly, late in the quarter, news came out that India's local bonds will be included in JPMorgan's emerging market bond index. This will encourage foreign investors to participate in India's local bond market and will boost the domestic credit rating industry.

Impro is a Chinese industrial precision components maker listed in Hong Kong. It specializes in a manufacturing method called casting. The method differs from other manufacturing processes (e.g., forging and machining) as it involves pouring molten materials into a mold cavity that takes the shape of the finished part. Casting might sound simple on paper, but the technique requires years of process know-how. If you're familiar with Precision Castparts, which is owned by Warren Buffett's Berkshire Hathaway, then you can loosely consider Impro as the Precision Castparts of China. Beyond its relatively high

gross margin of nearly 30% and operating margin above 15%, Impro stands out from the sea of Chinese competitors in two other ways. First, exports to multinational customers, such as Cummins or Caterpillar, account for nearly 80% of its revenue, so the impact of China's recent economic slowdown has not been as significant as one might assume. Second, it has a global manufacturing footprint with plants in Germany, Turkey and Mexico. We visited its new Mexican plant late last year and were impressed with its scale and sophistication. This plant will clearly help Impro better serve its US-based customers.

Our top four detractors, Glenveagh, M&C Saatchi, Alten and Zuken, were all among our top 10 positions.

After being a top contributor last quarter, Glenveagh, one of the biggest homebuilders in Ireland, gave back those gains this quarter. Rising interest rates are hurting investor sentiment toward this sector. At the fundamental level, however, the business is in great shape. It provided a robust outlook in September. The permit bottleneck it reported half a year ago has been largely removed. This gives Glenveagh good visibility into its strong permitted pipeline. The company is now more confident about doubling its earnings per share next year. Beyond next year, we believe it can continue to grow earnings per share at a close to double-digit compound annual growth rate in a still very fragmented industry. We are hard-pressed to find another major homebuilder in any country with this kind of growth prospect. For such a business, we're paying less than net asset value on the balance sheet. We added to the position in the quarter.

M&C Saatchi continued to be a major detractor. As our largest position, it can often have a significant performance impact in any given period. As mentioned above, we're perfectly fine with big quarterly swings, as long as we continue to believe in the company's long-term fundamentals. We believe M&C Saatchi's long-term prospects are significantly better after its CEO resigned and the new chairwoman stepped in as interim CEO. The chairwoman has a strong track record of building shareholder value and is taking a more aggressive approach to the existing cost-cutting plan. In addition to shutting down or drastically downsizing money-losing businesses, she's taking a fine-tooth comb through its cost base, mostly in three areas: people, procurement and facilities. She's doing all the things that we like to see as a major shareholder. The company recently announced roughly GBP 10 million annual cost savings that will be realized over the coming year. Given its conservatism, we'd be disappointed if the eventual number does not materially exceed this announced figure. For a business with roughly GBP 250 million of revenue, these cost savings will materially boost its already double-digit operating margin. On the other hand, the short-term focused market has negatively interpreted the CEO resignation news. We took

advantage of the share price weakness to add to our already large position.

Alten, headquartered in France, is one of the world's biggest providers of outsourced R&D engineering services. It services a diverse range of end markets, including auto, aerospace and defense, telecom, multimedia, energy, life sciences, IT and finance, with no single end market accounting for more than 20% of its revenue. For example, if Volkswagen were to approach it for development help on its next-generation electric vehicle platform, Alten would assign a team of engineers to work closely with the auto company. We've owned this name since inception. The market reacted negatively to its first half 2023 results. While Alten continued to grow organically at an impressive double-digit rate, personnel cost inflation and dilution from bolt-on M&A activity squeezed its margin on a year-over-year basis. The weaker margin does not bother us since we knew last year's 11% operating margin was unsustainably high. We were already using a lower 10% operating margin in our valuation. The company is run by an owner-operator we highly respect who is still the largest shareholder with close to a 15% stake. We used the share price weakness to add to our position.

Zuken is a Japanese electronic design automation (EDA) software player. Engineers in the electronic and semiconductor industries use EDA software to design chips as well as all kinds of electronic components. Zuken is a major global player in two specific product lines: printed circuit board design and cable wire harnessing design. It's a rare Japanese software pure play that's globally competitive. We've owned this business since inception. It reported good top-line growth but a weak bottom-line result this quarter, which it explained was due to product development related investments. We believe this is indeed the case through our due diligence in the prior quarter. Earlier in June, we attended its annual customer summit in the US and had the chance to chat with many of its customers. It's worth noting that this event's target audience was US-based customers. We were one of the very few foreign investors who took advantage of this opportunity to learn more about its business. Short-term earnings fluctuations notwithstanding, we came away feeling better about the short-term investments it's making and more confident about its long-term growth prospects. We added to the position in the quarter.

Detractions from the above four names accounted for the vast majority of our underperformance in the quarter. When you look at the four—an Irish homebuilder, a UK advertising agency, a French outsourced engineering service provider and a Japanese industrial design software house—what ties them together in terms of performance drivers? Nothing. Each is idiosyncratic. The only commonality is that we added to our positions in each one because despite the primacy of market doubt, our confidence in the probability of their sunny outcomes remain.

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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 and less developed markets, including frontier markets. Such risks include new and rapidly changing political and economic structures, which may cause instability; underdeveloped securities markets; and higher likelihood of high levels of inflation, deflation or currency devaluations. Securities of small- and medium-sized companies tend to have a shorter history of operations, be more volatile and less liquid and may have underperformed securities of large companies during some periods. Value securities may underperform other asset types during a given period. 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.

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 International Explorer Strategy Composite's total net assets as of 30 Sep 2023: M&C Saatchi PLC 8.1%, Glenveagh Properties PLC 6.3%, Care Ratings Ltd 4.1%, Zuken Inc 4.1%, Alten SA 4.0%, Impro Precision Industries Ltd 3.5%, Sesa SpA 1.5%. Securities named in the Commentary, but not listed here are not held in the portfolio as of the date of this report. Totals may not sum due to rounding.

ESG assessments represent one of many pieces of research available and the degree to which it impacts holdings may vary based on manager discretion.

Attribution is used to evaluate the investment management decisions which affected the portfolio's performance when compared to a benchmark index. Attribution is not exact, but should be considered an approximation of the relative contribution of each of the factors considered.

If applicable, contribution is calculated by multiplying a security's weight by its in portfolio return daily for the period and has been derived from a transaction-based methodology. Net contribution has been calculated by 1) deducting the related Composite's net return, which has been reduced by the highest model fee, from the greater of either of the portfolio's gross contribution total or the Composite's gross return, to determine a "model fee" applicable to managing the representative account's portfolio, 2) weighting that model fee based on each investment's average weight during the period; and then 3) deducting the weighted model fee from each investment's corresponding gross contribution to arrive at the net result. Return attribution identifies relevant factors that contributed to the portfolio's results, but is not exact, nor representative of actual investor returns due to several variables (e.g., security pricing, cash flows, the deduction of fees and expenses, etc.), and therefore should be examined in conjunction with performance of the portfolio or Composite during the period. Artisan will promptly provide further information on the methodology used or the performance of the account from which the individual security returns were extracted upon request.

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 ex USA Small Cap Index measures the performance of small-cap companies in developed markets and emerging markets excluding the US. The JPMorgan Government Bond Index-Emerging Market Index suite is made up of comprehensive emerging market debt benchmarks that track bonds issued by emerging market governments denominated in the local currency of the issuer. S&P 500[®] Index measures the performance of 500 US companies focused on the large-cap sector of the market. 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. **Earnings per Share (EPS)** is the portion of a company's profit allocated to each outstanding share of common stock. **Compound Annual Growth Rate (CAGR)** is the year-over-year average growth rate of an investment over a period of time. It is calculated by taking the nth root of the total percentage growth rate, where n is the number of years in the period being considered.

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