Artisan Non-U.S. Small-Mid Growth Strategy

QUARTERLY
Commentary

As of 30 September 2023

Investment Process

We seek long-term investments in high-quality businesses exposed to structural growth themes that can be acquired at sensible valuations in a contrarian fashion and are led by excellent management teams.

Investing with Tailwinds

We identify structural themes at the intersection of growth and change with the objective of investing in companies having meaningful exposure to these trends. Themes can be identified from both bottom-up and top-down perspectives.

High-Quality Businesses

We seek future leaders with attractive growth characteristics that we can own for the long term. Our fundamental analysis focuses on those companies exhibiting differentiated and defensible business models, high barriers to entry, dynamic management teams, favorable positions within their industry value chains and high or improving returns on capital. In short, we look to invest in small companies that have potential to become large.

A Contrarian Approach to Valuation

We seek to invest in high-quality businesses in a contrarian fashion. Mismatches between stock price and long-term business value are created by market dislocations, temporary slowdowns in individual businesses or misperceptions in the investment community. We also examine business transformation brought about by management change or restructuring.

Manage Unique Risks of International Small- and Mid-Cap Equities

International small- and mid-cap equities are exposed to unique investment risks that require managing. We define risk as permanent loss of capital, not share price volatility. We manage this risk by having a long-term ownership focus, understanding the direct and indirect security risks for each business, constructing the portfolio on a well-diversified basis and sizing positions according to individual risk characteristics.

Team Overview

Our team is intellectually curious about the world and how it is changing. Each team member is passionate about small company investing and discovering businesses with meaningful and open-ended growth opportunities.

Portfolio Management

Rezo Kanovich
Portfolio Manager

Investment Results (% USD)

As of 30 September 2023	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception[1]
			Average Annual Total Returns				
Composite — Gross	**-7.57**	**0.81**	**13.03**	**-1.13**	—	—	**9.34**
Composite — Net	**-7.81**	**0.05**	**11.91**	**-2.12**	—	—	**8.24**
MSCI All Country World ex USA SMID Index	-1.98	5.35	19.95	3.24	—	—	5.34
MSCI All Country World ex USA Small Cap Index	-1.70	5.03	19.01	4.01	—	—	6.14

Annual Returns (% USD) 12 months ended 30 September

	2019	2020	2021	2022	2023
Composite — Net	—	**28.49**	**23.93**	**-32.39**	**11.91**

Source: Artisan Partners/MSCI. Returns for periods less than one year are not annualized. [1]Composite inception: 1 January 2019.

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 equities fell in Q3 amid rising government bond yields due to persistent inflation, accompanied by worries of a US government shutdown and a weakening Chinese economy. While the Fed, BOE and ECB have made progress in combating inflation, a "higher for longer" restrictive monetary policy will remain the common strategy to reach their 2% inflation targets. China, on the other hand, has been grappling with an economic slowdown as evidenced by deflation in consumer and producer prices and a distressed real estate sector.

On the geopolitical front, tensions continue to flare with the protracted Russia-Ukraine war, fresh trade and investment restrictions between the US and China, and the reduced oil output from Saudi Arabia and its OPEC+ partners amid rising global demand.

Over the course of 2023, volatility has increased as investors reposition portfolios with evolving macroeconomic dynamics. Much activity has been driven by predictions of a US hard landing versus soft landing, attention-grabbing headlines fixated on artificial intelligence (AI) and projections on the impact of long-term rates. As a result, market breadth has been extremely narrow, with seven stocks providing 84% of the S&P 500® Index's year-to-date return. Crowding into certain companies and sectors, with little regard for individual fundamentals, has led to a wide divergence in performance.

In challenging market environments like the present, a grounded approach toward risk and long-term opportunity is of particular importance. Our comprehensive risk management framework reflects several principles, but none is more crucial than applying thoughtful and diligent fundamental analysis at the individual company level. We are hyperaware of the challenges small companies face. Hence, we orient the portfolio to high-quality businesses run by talented management teams. We thoroughly analyze our portfolio companies before we underwrite them for an initial five-year investment duration, ideally finding businesses worth owning much longer as they evolve. We meet with company management, heads of research and development, industry experts, trade publication reporters and government policymakers, as well as solicit feedback from customers and suppliers. This well-rounded approach forms the foundation of our differentiated viewpoints on companies and industry dynamics. Throughout our ownership, we continually test our assumptions regarding a company's quality, including defensibility of the business model and market position, balance sheet strength, cash flow generation, pricing power, ability to self-finance growth and ability to generate high or improving returns on invested capital.

Having experienced numerous "black swan" events and turbulent market environments over the past two decades, we cannot stress enough the importance of astute management teams, whose actions can drive wildly divergent outcomes. Last quarter, we discussed Aixtron, Jet2 and Kinaxis attempting to get stronger by seizing opportunities to innovate and/or taking advantage of market dislocation to play offense amid turbulence. Analyzing people's motivations, decision making and ability to affect culture is a skillset built over years and cannot be replicated by a quantitative model. We go through great pains to keep regular dialogue with management teams, often involving travel around the world.

Other elements of our risk management approach include an emphasis on diversification across industries, geographies and themes, along with valuation discipline and humility with position sizing. Although the prospects for our portfolio companies can be extremely exciting, we temper our enthusiasm and tend to run an overall flat portfolio. Individual position sizes rarely exceed 3%, top 10-weighted positions typically represent about one-fifth of the total portfolio, and the long tail of smaller positions, which have a higher risk profile but massive upside potential, has helped to provide the portfolio with positive convexity. We aim to find anti-cyclical, idiosyncratic investments, where success is not reliant on a particular market backdrop. Successful execution of this approach can help to deliver a differentiated return profile for our investors.

Finally, it is worth highlighting our belief that risk is the probability of permanent capital loss, rather than short-term share price volatility. In fact, volatility often creates a dynamic for us to apply our contrarian approach and opportunistically manage position sizes. Shifts in market sentiment can temporarily depress share prices without regard for individual company fundamentals. We've written at length over recent quarters about the divorce between price action and fundamental progression that is evident in many of our businesses. To further illustrate this point, recent examples include Fabrinet, Gerresheimer and WNS.

Thailand-based Fabrinet manufactures advanced optical photonics needed for high-end connectivity within data centers. The stock sold off last quarter in sympathy with the broader technology sector, outside of the narrow AI rally. The market failed to understand that Fabrinet's expertise is essential for AI infrastructure, and Fabrinet is the only company able to fulfill the materially higher demand from chip maker NVIDIA, a leader in its industry. Fabrinet continues to take market share and win new design contracts, which are sticky and support healthy, long-term revenues. Subsequently, its shares rebounded after the company reported earnings and revenue that exceeded market expectations.

Germany-based Gerresheimer has moved up the value chain from glass and plastic containers to differentiated systems for its pharmaceutical and cosmetics customers. This transition has generated sustainable and highly profitable growth. For example, the company's portfolio includes autoinjector systems for anti-obesity drugs and sterile pre-fillable vials for next-generation biologics. Gerresheimer is also developing wirelessly connectable patch pumps and inhalers with high-value potential by improving patients' medication compliance. This is an enviable market position in an industry with high barriers to entry and switching costs. When the Russia-Ukraine war broke out, Gerresheimer's shares sold off on energy supply concerns. Uncovered through hands-on work with the management team, it became clear that not only did Gerresheimer hedge its energy prices five years out and minimize disruption risk by making its plants interchangeable between gas and oil, but also the German government deemed the company systemically important as a health care industry provider, which protected its power supply. Since February 2022, Gerresheimer's share price has risen more than 50%.

India-based WNS is a global process management company that continues to successfully execute its strategy. The market, however, has punished the stock on the misguided notion that AI will erode its value creation and commoditize its business model. As we discussed in last quarter's letter, we believe AI will serve as a meaningful productivity tool for WNS' business by providing useful applications in automating areas such as pricing models for the travel and leisure industry and manual processing of insurance claims. In addition, productivity gains in routine tasks could increase demand for other value-added tasks and services. The market is also overlooking the reality that WNS is likely to benefit from macro headwinds, as its customers will likely outsource more processes to reduce costs.

The risk-aware nature of our investment approach should continue to serve our investors well. As always, we remain focused on identifying the select few well-positioned businesses in a vast investment universe that we believe have the potential to become much larger enterprises, with industry-leading positions and global relevance.

Performance Discussion

Our portfolio underperformed the MSCI ACWI ex USA SMID Index in Q3. Stock selection in information technology and health care was the main detractor from relative return. Holdings in communication services were a source of relative strength for the portfolio.

On an individual company basis, NICE, Ambu and Kornit Digital were the largest detractors. NICE, the portfolio's top holding, is a leading enterprise software company that provides AI-enabled decision tools for contact centers. Despite reporting quarterly results that included cloud growth of 23%, meaningful expansion in margins and cash flows and higher full-year guidance, shares of NICE fell as the market extrapolated weak results at competitor Five9 onto the industry at large. Sales cycles are lengthening across the industry, but NICE's fundamentals remain very strong. The company continues to increase its market share lead—particularly at the high end of the customer base, and it continues to use its more than $1 billion of cash on the balance sheet to invest in R&D and expand its AI capabilities. Its investment in AI-enabled decision tools began years ago and is still in the early innings. We believe the gap will increase between companies with resources to continue developing AI products, such as NICE, and those that deployed their cash flow in unproductive ways. In addition, NICE is evolving its pricing model from per seat to per transaction, which should strengthen revenue generation as bots continue to replace human agents. We are highly confident in NICE's multiyear opportunity and believe the stock is attractively valued.

Ambu is a pioneer in single-use, disposable endoscopes, which initially focused on pulmonology. The company has expanded its product portfolio of bronchoscopes to include cystoscopes and scopes for ENT (ear, nose and throat) and is preparing to launch products in the larger end market of gastroenterology. As the new management team reorganizes its US distribution strategy and reprioritizes its R&D, margins have fallen under temporary pressure, dampening investor sentiment. However, given the company's innovative modular design process and clear economic advantage compared to incumbent devices, we believe Ambu's structural profitability is materially higher than current levels, and we are confident in the new management team's ability to execute.

Kornit Digital is an intellectual property-protected leader in the apparel industry's digital transformation by enabling automation, near-shoring, eco-friendliness and working capital efficiency of garment manufacturing. Shares fell this quarter after reported Q2 revenue fell slightly from a year ago. Despite the short-term challenge of year-over-year comps, we are confident this technology will inevitably supplant old manufacturing methods. As part of our ongoing industry research, we recently attended the International Textile Machinery Association conference in Milan to evaluate Kornit's new product innovations, including the upcoming Apollo launch, and witness firsthand the reception from current and prospective customers. Kornit's opportunity lies in both the merchandising market, such as concert t-shirts and sports jerseys, and the much larger mass retail market. The latter tends toward slower adoption, given the magnitude of the capital decisions required to transition supply chains, but we believe our patience and long-term orientation will pay off for investors. With its best-in-class technology, strong customer relationships and strong cash position of nearly $600 million, Kornit can fund further R&D and maintain its leadership position in the apparel industry's structural shift to automation. The stock is currently trading on an enterprise value that is less than the trailing 12 months of revenue, which barely appreciates the flow-through of consumables from its current installed base, let alone its growth prospects as the world reshapes supply chains.

On the positive side, Fabrinet, Swedish Orphan Biovitrum and Hamburger Hafen und Logistik were the largest contributors. As discussed in the opening section, shares of Fabrinet gained this quarter as the company's revenue and earnings exceeded expectations on strong growth in its data communication business, a key enabler of AI infrastructure. Advanced optical components are structurally replacing copper wires within data centers. Increasingly, large companies across industries are outsourcing this manufacturing to the most efficient providers, and Fabrinet is the largest provider of high-end connectivity modules (transceivers). The company is asset light with an intelligent contract structure, where pre-payments provide it with negative working capital and funding for manufacturing capacity expansions.

Swedish Orphan Biovitrum (SOBI) is a specialty pharmaceutical company that develops and commercializes therapies and drugs for the treatment of hemophilia, inflammation and genetic diseases. The company has three important product launches, all of which have FDA approval—Beyfortus™, a therapy to prevent respiratory syncytial virus infections in infants, a leading cause of infant death; ALTUVIIIO™, a weekly infusion for adults and children with hemophilia A; and recently acquired Vonjo™, which treats myelofibrosis. SOBI is profitable, growing in large end markets and remains attractively valued.

Hamburger Hafen und Logistik AG (HHLA) is a port operator and logistics company in Hamburg, Germany. Our investment thesis is twofold: 1) automation will improve a port's profitability and productivity; and 2) HHLA has idiosyncratic drivers of value. Hamburg's best-in-class railroad system positions the port as a unique and vital connection between the rest of Europe and the North Sea. After receiving environmental clearance to dredge the Elbe River for large ships, HHLA began automating the port to compete with Antwerp and Rotterdam. Shares of HHLA rose after Mediterranean Shipping Company (MSC), the world's biggest container shipping company, offered to acquire 49.9% of the company. If successful, the deal would make HHLA a joint venture between the city of Hamburg and MSC.

Perspective

The markets remain stressed, and new sources of concern are emerging in both geopolitical and economic contexts. We recognize that the markets are looking for a narrative and the search for a momentum trade is constant. In this environment, many investors have resorted to risk on/off thinking and trading baskets of securities, casting aside nuance regarding an individual company's idiosyncratic drivers. For instance, we believe that there are select long-term winners that are launching AI-enabled products, yet they are deemed to be "AI losers" and thrown into trading baskets based on drastic top-down industry projections on the impact of AI adoption. In fact, one of our most recent purchases is a leader in automation software that comes directly from our work on this "AI losers" list. This business possesses customer intimacy, vertical knowledge, AI capability and the necessary data to train the system…which also stands in contrast to some of those labeled "AI winners." Similarly, in health care, while the world is fixated on the narrative that GLP-1 weight loss drugs will fix every ailment, many other long-term sustainable opportunities are overlooked. In a world where diabetes continues to rise, there is a commensurate need for effective delivery of insulin. Insulin pumps are clearly a superior delivery mechanism versus a syringe, and this transition should have structural support. However, for now, ConvaTec, which earns nearly 20% of its revenue from insulin pumps, is labeled as a "GLP-1 loser." We will not make top-down allocation decisions or trade baskets of securities. Instead, we will continue to opportunistically take advantage of market dislocation to purchase companies we believe have long-term value and are less dependent on a cyclical backdrop.

We routinely observe the market's tendency to extrapolate a few near-term data points to either justify hefty valuations or project pessimism too far into the future. We remain steadfast in the application of our contrarian approach to valuation as we look for sustainable winners. As we have done throughout other turbulent periods over our investment history, we continue to test our assumptions built into our investment theses and remain focused on how our portfolio companies may emerge on the other side of these crises.

Thank you for your continued trust and confidence. We look forward to updating you on where we are finding attractive investment opportunities in which we can compound returns over the long term.

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 and less developed markets, including frontier 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. Growth 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 Non-U.S. Small-Mid Growth Strategy Composite's total net assets as of 30 Sep 2023: Nice Ltd 3.7%, ConvaTec Group PLC 2.6%, AIXTRON SE 2.0%, Fabrinet 2.0%, Swedish Orphan Biovitrum AB 1.8%, Jet2 PLC 1.8%, WNS Holdings Ltd 1.7%, Gerresheimer AG 1.6%, Ambu A/S 1.2%, Kinaxis Inc 1.2%, Kornit Digital Ltd 1.1%, Hamburger Hafen und Logistik AG 0.3%. 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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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 SMID Index measures the performance of small- and mid-cap companies in developed and emerging markets excluding the US. 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. S&P 500® Index measures the performance of 500 US companies focused on the large-cap sector of the market.

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Return on Capital (ROC) is a measure of how effectively a company uses the money (borrowed or owned) invested in its operations. **Return on Invested Capital (ROIC)** is a measure of how well a company generates cash flow relative to capital invested in the business. **Enterprise Value (EV)** is a measure of a company's value.

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