Artisan Global Equity Strategy

QUARTERLY
Commentary

As of 31 December 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 31 December 2023	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception[1]
Composite — Gross	**10.98**	**13.58**	**13.58**	**-0.98**	**10.90**	**8.84**	**11.16**
Composite — Net	**10.74**	**12.57**	**12.57**	**-1.86**	**9.90**	**7.82**	**10.10**
MSCI All Country World Index	11.03	22.20	22.20	5.75	11.71	7.92	8.56

Annual Returns (% USD) Trailing 12 months ended 31 December

	2019	2020	2021	2022	2023
Composite — Net	**31.57**	**28.98**	**5.64**	**-20.52**	**12.57**

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

Falling inflation and interest rates led to a strong market rebound across global equity markets in Q4. In the US, inflation eased for a tenth straight month, as measured by the core personal consumption expenditures price index, which excludes food and energy. While the Fed kept interest rates steady in December, it indicated rates may have peaked for this cycle. Anticipating easing monetary policy in 2024, financial markets sent equity prices higher, bond yields lower and the dollar lower against the euro and yen. Adding to the positive sentiment, US holiday sales climbed 3.1% from November 1 to December 24, a slower pace than last year but a solid number, nonetheless.

In Europe, inflation rates also eased considerably. The ECB and the BOE kept key interest rates steady as well. However, unlike the US, European central banks reaffirmed the need to hold rates higher for longer. Monthly retail sales grew at a tepid 0.1% in the euro zone in contrast to a solid 1.3% in the UK, a rebound from an otherwise unsettled year in retail. The euro zone and UK economies contracted slightly.

Japan's economy grew at a slower-than-average rate, as did inflation. Manufacturing continued to ease after peaking earlier this year. In December, Japan's purchasing managers' index declined to 47.8 from 48.3 in the previous month, indicating a seventh straight month of contraction in factory activity, amid weak demand and rising price pressures. The BOJ kept its benchmark rate at -0.1% in order to spur business activity. Elsewhere in the region, China pushed its annual GDP growth rate close to its 5% target for the year through sustained government stimulus. It was the strongest pace since April but still significantly below its 30-year average. Exports unexpectedly grew in the final months of the year. However, the property sector continued to contract, despite government investments.

Portfolio Activity

The portfolio achieved high returns during Q4 but fell just short of the MSCI AC World Index. Positive stock selection and currency effects were overwhelmed by negative sector allocation effects.

A below-benchmark weighting in information technology reduced relative returns the most. Strength in cloud software, digital transformation, business process automation, the Internet of things and generative artificial intelligence (AI) led to strong sector returns, despite weak demand in Asia. In addition, anticipation of future interest rate cuts and falling bond yields added fuel to stock price appreciation in the sector.

Holdings in consumer staples also detracted from relative performance. The share price for household product manufacturer Reckitt Benckiser fell on a decline in sales volume, despite solid earnings that were in line with consensus estimates. Adding to investor uncertainty, management stated it would not confirm its 2024 margin guidance until February. However, the firm announced a $1.2 billion share buyback that it expects to execute in early 2024. In addition, global packaged foods leader Nestle reported lower-than-expected sales volumes. The company was, however, able to confirm its full-year 2023 outlook for organic sales growth and operating margins.

An overweight position in health care also detracted from relative performance. Given the equity market's strong performance this year, health care ended up lagging behind higher growth areas. Among our positions, shares of Halozyme Therapeutics ended a volatile quarter lower, as total revenues missed estimates by 2%. The biotech company earns royalties on its proprietary ENHANZE technology, a drug delivery solution that incorporates a patented enzyme with subcutaneous injection (a short needle that delivers medications into the tissue layer between the skin and the muscle.) These injections are easier to self-administer than injections with regular needles, and they allow the body to absorb the medicine at a slower, more sustained rate. Halozyme has several products in development with leading pharmaceutical and biotech companies, including Abbvie, Pfizer, Lilly and Bristol Myers Squibb. Over the long term, we appreciate the company's ability to generate cash, enabling share buybacks that support share prices.

Conversely, our stock choices in communication services enhanced relative returns the most. Shares of Netflix re-rated higher on strong subscriber growth and improved guidance. Much of the growth can be chalked up to its successful password-sharing crackdown this year. Confident in its latest content lineup, Netflix also raised prices in several key markets. We believe this move will support its industry-leading $16.29 average revenue per subscriber. The streaming leader's share price rose further after the company released its first semiannual user engagement report, a particularly useful resource for advertisers. The report publicizes key audience statistics, such as hours viewed, for over 18,000 titles. As the streaming video market matures, we think Netflix's ability to maintain its productivity advantage could become a key competitive strength, especially if investors increasingly focus on profitable growth over subscriber growth. Also, Meta Platforms, supported by strong advertising growth, added to relative performance. Accompanying its strong, advertising-driven quarterly sales results was 2024 operating expense guidance of $94 billion to $99 billion, much lower than analyst expectations. Investors applauded this outcome by bidding its shares higher.

Both our holdings in industrials and an above-benchmark weighting in the sector added to relative performance as well. Shares of Ferguson, a leading distributor of heating and plumbing products in a fragmented North American market, rose steadily after it beat consensus sales and earnings growth estimates. Margins held steady during Q3 despite pricing pressure in both the residential and nonresidential markets, allowing it to reach the upper end of its 2023 guidance. We estimate the company is growing twice as fast as the underlying market while expanding gross margins. We believe the company is well positioned for 2024; new residential housing demand is predicted to grow, which could provide additional support to sales volumes. Overall, we like the high-quality nature of this company along with its resilient cash flows and reasonable valuation compared to peers. Our position in General Electric (GE) added further strength to our relative performance in the sector. GE's share price grew steadily after raising its full-year 2023 guidance and releasing 2024 projections for GE Aerospace and GE Verona, two of its fastest growing units. The post-pandemic surge in air travel has led to an increased demand for new aircraft, including those that use fuel-efficient engines manufactured by GE Aerospace. GE Verona is the alternative energy unit that the company plans to spin off in 2024. The unit benefits from the $435 billion in clean energy funding provided by the Inflation Reduction Act and Infrastructure Investment and Jobs Act. We are especially attracted to GE Verona's fast growth in clean hydrogen and decarbonization technologies.

Finally, the portfolio's below-benchmark energy sector weighting contributed to relative returns. Crude oil and natural gas prices fell during the quarter as slower economic activity reduced demand. While OPEC+ countries continue to push for voluntary cuts from its members in order to increase prices, the US increased its oil supplies to a record-breaking 20 million barrels per day (mb/d) during the quarter and is predicted to deliver a supply increase of 1.4 mb/d in 2023. These supplies, along with a particularly large output from Brazil and Guyana, helped keep prices down and contributed to the bearish sentiment toward energy stocks this quarter.

Positioning Activity

Our recent stock selection highlights some of the global economy's newer structural growth areas, particularly within our infrastructure and environment themes.

In our infrastructure theme, we increased our positions in companies with unique assets that can be leveraged. Since the end of COVID-19, airlines have ramped up supply to meet greater demand but are doing so in a way that supports lower emissions. We increased exposure to growth companies directly tied to this trend. AerCap provides a wide variety of aircraft leasing and financing services to owners, financiers and investors who value the quality of its fleet. In recent years, AerCap has benefited from supply disruptions in the industry that boosted demand for its services. Also, we initiated a position in Keisei Electric Railway, a transport and commuter train company that owns critical rail assets and valuable real estate in Tokyo and its suburbs. Its holdings also include a significant stake in a company that owns and operates Tokyo Disneyland. We believe the company could soon unlock value from these holdings.

Another company that is unlocking value—in our environment theme—is industrial gas producer Air Liquide. We scaled up this position after it inaugurated a joint venture with Siemens to mass-produce industrial-scale electrolyzers used to produce hydrogen through electrolysis. When using a renewable energy source as a feedstock, such as wind or solar power, electrolysis has no carbon emissions. Hydrogen is an energy source that has the potential to decarbonize large portions of the economy, particularly heavy industry. In addition, Air Liquide was named as a key partner in most of the US hydrogen hubs being scaled up with Department of Energy support. These developments enable Air Liquide to execute a backlog of green energy investment opportunities worth more than $4.5 billion.

We pared back holdings in other themes. Within demographics, we sold luxury goods purveyor Richemont and trimmed global food and beverage manufacturer Nestle due to slowing growth. For similar reasons, we exited Reckitt Benckiser because of slowing like-for-like sales growth, an adjusted sales figure used for comparing sales activity over different periods. Reckitt's slower sales growth reflects the general slowdown we have seen in discretionary consumer spending this quarter, as shoppers grapple with sticky inflation. Lastly, we sold TJX Companies, a leader in off-price apparel, after a strong stock price run-up led to a stretched P/E multiple. Aging populations is another part of our demographics theme. This quarter, we exited Daiichi Sankyo, a biotech company developing cancer prodrugs, to look for more promising growth opportunities.

In financial services, we exited AJ Gallagher and Aon, leading global insurance brokers. While we appreciate Aon's high margins, we believe the company's current cash and stock offer to acquire NFP, a US-based middle-market player, would dilute earnings per share and might reduce cash flow and share buybacks, key reasons why we own the stock. We also exited Intercontinental Exchange as it digests its $11.9 billion acquisition of analytics company Black Knight, a deal that may be accretive to earnings per share by late 2024.

Finally, in our technology theme, we pared back our positions in Alphabet and Microsoft to take profits while adding to our position in Amazon. Amazon Web Services (AWS), the cloud computing unit, is a key component of the e-commerce giant's revenue and profits. Despite some headwinds in cloud spending this year, Amazon has maintained its market lead by growing revenue and improving operating margins. In addition, AWS's recent investment in AI startup Anthropic, founded by former staffers from OpenAI, shows that Amazon intends to keep up with rivals in developing large language models to support new cloud services for customers.

Outlook

With inflation declining, interest rates falling and continued labor market strength, most signs point to an investment environment with moderating risks in 2024. However, transitioning economies, increased geopolitical risk, inflation volatility and increasingly uncorrelated central bank policies could lead to a period of increased volatility as well. Whatever happens in 2024, we strongly believe that a portfolio of high-quality companies—well-diversified across sectors, industries and regions—should continue to play a significant role for investors. As always, our consistent approach to investing is designed to help investors meet their financial goals.

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 Global Equity Strategy Composite's total net assets as of 31 Dec 2023: Nestle SA 1.1%, Halozyme Therapeutics Inc 3.3%, Netflix Inc 3.3%, Meta Platforms Inc 4.2%, Ferguson PLC 2.5%, General Electric Co 3.4%, AerCap Holdings NV 1.5%, Keisei Electric Railway Co Ltd 1.2%, Air Liquide SA 4.5%, Alphabet Inc 2.4%, Microsoft Corp 1.9%, Amazon.com Inc 5.3%. 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.

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.

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Price-to-Earnings (P/E) is a valuation ratio of a company's current share price compared to its per-share earnings. **Cash flow** is the net cash and cash equivalents that are transferred into and out of a company. **Share Buybacks** take place when a company buys its own outstanding shares on the open market in order to increase value of its remaining shares. **Like-for-like sales** is an adjusted sales figure used for comparing sales activity over different time periods using the same inputs. **Earnings per Share (EPS)** is the portion of a company's profit allocated to each outstanding share of common stock. **Accretive** refers to an investment's gradual contribution to earnings growth or share valuation. **Au Jibun Bank Japan Manufacturing Purchasing Managers' Index (PMI)** measures the activity level of purchasing managers in the manufacturing sector. A reading above 50 indicates expansion in the sector; below 50 indicates contraction.

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