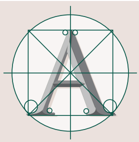


Artisan Global Value Strategy

QUARTERLY
Commentary

As of 31 December 2023

Investment Process

We seek to invest in high-quality, undervalued companies with strong balance sheets and shareholder-oriented management teams.

Undervaluation

Determining the intrinsic value of a business is the heart of our research process. Intrinsic value represents the amount that a buyer would pay to own a company's future cash flows. We seek to invest at a significant discount to our estimate of the intrinsic value of a business.

Business Quality

We seek to invest in companies with histories of generating strong free cash flow, improving returns on capital and strong competitive positions in their industries.

Financial Strength

We believe that investing in companies with strong balance sheets helps to reduce the potential for capital risk and provides company management the ability to build value when attractive opportunities are available.

Shareholder-Oriented Management

Our research process attempts to identify management teams with a history of building value for shareholders.

Team Overview

Our team has worked together for many years and has implemented a consistent and disciplined investment process. Our team is organized by geographic regions, but within those regions we are generalists who look across all industries. We believe this model enables our analysts to become broad thinkers and gain critical insight across all economic sectors.

Portfolio Management

Daniel J. O'Keefe
Portfolio Manager (Lead)
Managing Director

Michael J. McKinnon, CFA
Portfolio Manager
Managing Director

Investment Results (% USD)

As of 31 December 2023	QTD	YTD	Average Annual Total Returns: 1 Yr	3 Yr	5 Yr	10 Yr	Inception[1]
Composite — Gross	**12.47**	**28.05**	**28.05**	**9.34**	**12.04**	**8.33**	**8.75**
Composite — Net	**12.21**	**26.85**	**26.85**	**8.31**	**10.99**	**7.30**	**7.72**
MSCI All Country World Index	11.03	22.20	22.20	5.75	11.71	7.92	5.77
MSCI All Country World Value Index	9.17	11.81	11.81	7.33	8.24	5.46	3.80

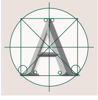
Annual Returns (% USD) Trailing 12 months ended 31 December

	2019	2020	2021	2022	2023
Composite — Net	**24.24**	**6.71**	**15.85**	**-13.53**	**26.85**

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

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

Investment Risks: Investments will rise and fall with market fluctuations and investor capital is at risk. Investors investing in strategies denominated in non-local currency should be aware of the risk of currency exchange fluctuations that may cause a loss of principal. These risks, among others, are further described near the back of this document, which should be read in conjunction with this material.



Market Overview

"If something cannot go on forever, it will stop."
—Herbert Stein, Chairman of President Nixon's council of economic advisors

Much of what we will say here we have already said. We have quoted Herbert Stein at least once before in these pages. It seems fitting to do it again. Repeating something doesn't make it less true, just easier to ignore.

Stating the obvious, markets ripped in Q4 and for the full year. And they did so in a way to which we have all become accustomed, numb even. Big Tech trounced everything. For the quarter, the Magnificent Seven had an average gain of 13%, outpacing the S&P 500® Index's 12%, the MSCI World Index's 11% and the MSCI EAFE Index's 10%, all in US dollars. For the year, they averaged a gain of 112%, beating the S&P 500® Index's 26%, the MSCI World Index's 23% and the MSCI EAFE Index's 18%, again all in US dollars. (China was the only major stock market to post a loss, down 4% during the quarter in US dollars, as it struggled against a slow post-COVID recovery and geopolitical tensions.) The tailwind for the market in general and the Magnificent Seven in particular was the emerging consensus for a soft landing and subsequent rapid cuts in interest rates. Inflation does indeed appear to be coming down toward central bankers' preferred levels.

Interestingly, the divergence between growth and value in the US during 2023 was about as extreme as we have ever seen it. The US market broadly was up in 2023, with the MSCI USA Index up 26% driven by Big Tech, while the value segment rose only 8% as measured by the MSCI USA Value Index. Wow. But outside the US, something very interesting happened: Value held its own. The MSCI EAFE Value Index was up 19%, while the MSCI EAFE Index was up 18%. The MSCI Japan Value Index was up 24%, while the MSCI Japan Index was up 21%. Outside the US, value actually outperformed growth. It must be said, however, that the growth versus value distinction outside the US is a subtle one. We would argue the MSCI EAFE Index overall is a value index, as is Japan more broadly. There is no dynamic, globally relevant tech industry outside the US. After decades of massive underperformance versus the US, international stocks can broadly be characterized as value or perhaps more accurately, "old economy" and/or "cyclical." Still, it's notable that the performance of value stocks outside the US was strong—particularly in Q4.

The emerging consensus for falling rates in 2024 is an interesting one to explore. Growth stock investors took that expectation to the bank in 2023, as we pointed out. But are falling rates really the ticket to growth stock nirvana? Will continued economic growth and falling rates be more beneficial to stocks with already high valuations and expectations or to those that are more cyclical and much cheaper? History has an opinion on this question. According to Bloomberg, there have been 11 falling rate cycles since 1954. In 9 of those 11 falling Fed Funds cycles, value outperformed growth. The two exceptions were a 20-month stretch starting in 1959 and, of course, the one we are all familiar with, the seemingly never-ending fall in rates following the financial crisis of 2008.

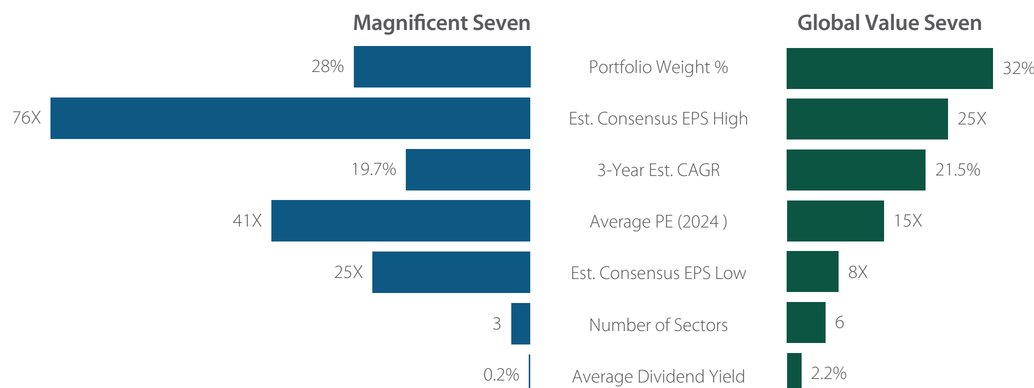
But we don't invest based on interest rates and predictions of the future. Neither should you. Growth versus value, soft landing versus hard—who knows? Over the past few years, we had a pandemic come out of nowhere, followed by an orgy of monetary and fiscal stimulus, followed by hopes for a sustainable boom in growth, followed by an inflationary spiral, followed by near certainty of recession. Now, the overwhelming bet is for a soft landing and falling rates. If anyone still believes they know the future or where markets are heading, they should stop by the nearest doctor's office for an examination.

We anchor on fundamentals as best we can. Essentially, there are three sources of return from stocks: growth in earnings, dividends paid and multiple expansion/contraction. Every investment must weigh those variables in order to frame potential return versus downside risk. Instead of trying to predict the future from the top down, let's compare the fundamentals for our top seven holdings to the Magnificent Seven, which are the top holdings for both the MSCI AC World Index and the S&P 500® Index.

Our top seven holdings are Samsung Electronics (the leading global manufacturer of memory semiconductors), UBS (the world's leading global wealth manager), Danone (global food and nutrition), Novartis (global pharma), Heidelberg Materials (global cement and aggregates), Elevance (a leading US health insurer) and Alphabet (global Internet search). The Magnificent Seven are well known, but we will list them anyway: Amazon, Tesla, Nvidia, Microsoft, Apple, Alphabet and Meta. These seven stocks make up 28% of the S&P 500® Index and 17% of the MSCI AC World Index. Our top seven holdings account for 32% of our portfolio.

First, let's look at valuation. The divergence is dramatic. For simplicity, we used the readily available consensus estimates for both groups. On this basis, the Magnificent Seven trade at 25X earnings on the low end (Alphabet and Meta) to 76X earnings on the high end (Tesla), with an average PE of 41X 2024 earnings. Our top seven trade for 15X 2024 earnings with a range of 8X on the low end (Heidelberg) and 25X on the high end (Alphabet). (We could argue 2024 valuations in the case of UBS and Danone fail to capture embedded earnings improvements due to restructuring and improvement programs at both companies. But for this analysis, the stated numbers are the stated numbers.) The average dividend yield of our top seven holdings is 2.2% versus 0.2% for the Magnificent Seven, as only Microsoft (0.8% yield) and Apple (0.5% yield) pay a dividend.

Exhibit 1: Comparing Fundamentals Between Magnificent 7 and Global Value 7 Stocks



Source: FactSet/GICS/S&P. As of 31 Dec 2023. Magnificent Seven stocks are the top seven holdings for both the MSCI AC World Index and the S&P 500® Index: Amazon, Tesla, Nvidia, Microsoft, Apple, Alphabet and Meta. The Global Value Seven are the top seven holdings in Artisan Global Value as of 31 Dec 2023: Samsung Electronics, UBS, Danone, Novartis, Heidelberg Materials, Elevance and Alphabet.

Is the Magnificent Seven's valuation premium justified? They are indeed great businesses, but they are not perfect. Apple faces significant headwinds in China, not only in terms of product demand but also supply chain stability. Tesla is the leading electric vehicle (EV) manufacturer, and EVs should grow in the global auto mix. But the potential for EV demand to hit a wall should not be discounted, nor should the rising competitive intensity of the industry. At the end of the day, Tesla is an auto manufacturer. Making cars is a crummy business. Nvidia dominates artificial intelligence (AI) chip manufacturing. AI will certainly grow, but at this valuation, it will need to grow significantly for many years in a historically cyclical industry.

The question of whether a valuation is justified ultimately comes down to earnings growth. So let us ask a leading question: Which group of companies do our readers think has a higher expected earnings growth rate? If you guessed our top seven, you are correct. According to Bloomberg estimates, our top seven have a three-year estimated compound annual growth rate of 21.5% versus 19.7% for the Magnificent Seven.

Our top seven are certainly not as dominant or as profitable collectively as their Magnificent Seven counterparts. But they are durable, attractive businesses with good growth prospects. Samsung is coming off one of the worst memory semiconductor downturns in history, and we expect a strong recovery over the next few years. It is a leader in memory chips, which will also benefit from growing AI demand. UBS is the leader in an attractive growth industry and just absorbed Credit Suisse at a fraction of its book value, giving it solid value creation potential. Danone has a strong portfolio, and the current management team is returning it to growth and margin expansion. Novartis has a great portfolio and pipeline, and it should grow earnings nicely for years.

Let us return to our basic investment analysis framework. The dividend yield of our holdings is 10X higher than that of the Magnificent Seven. The PE multiple is almost one-third. The expected consensus earnings growth is essentially the same. Our holdings seem to us like a much better proposition than a concentrated bet in the same seven stocks that have powered the market for the past decade. Are those seven stocks really worth three times the multiple as ours?

We have made our bet. Let us agree to return to this analysis in a few years' time and examine the results. We suspect at some point in the near future that which has appeared to go on forever will have come to a stop, and we can thankfully find another topic to write about.

Portfolio Update

Our top performers this quarter were UBS, Samsung and BNY Mellon.

UBS' share price rose by 26% in US dollars in the quarter and by 71% for the year. The acquisition of Credit Suisse (CS) is going very well. We wrote extensively about the acquisition in our Q1 letter and have provided updates along the way. The credit quality of the CS balance sheet is in line with or better than expectations. The cost-cutting programs, which are critical to delivering the expected synergies, appear to be on track. Most importantly, the outflows CS experienced prior to the acquisition have stabilized. All of these factors bring earnings power and capital generation for the combined entity into clearer focus, and they suggest a very attractive valuation. We estimate a valuation today close to tangible book and a business that we believe should earn a mid-teens ROE.

BNY Mellon rose 23% in the quarter and 18% for the year. Rising rates have been a mixed blessing for BNY. Clearly, they provide a tailwind to earnings. Customers park a lot of cash on BNY's balance sheet as part of the custody relationship, and BNY invests this cash to earn a spread. As rates rise, however, the tailwind of a larger spread can be offset by customers who demand BNY pay higher rates on their deposits or who move their cash into other higher yielding instruments. This meant the benefit from higher rates peaked at the beginning of 2023. At the same time, the company's capital return program was

squeezed a bit by the impact of higher rates on its capital ratios. Now that it appears the rate cycle has peaked, BNY's stock has reacted favorably. The year-to-date share price decline heading into Q4 was more than erased by this quarter's large gain.

Samsung rose 21% during the quarter and 41% for the year. Its shares rose as signs that the worst memory semiconductor down-cycle in over a decade was coming to an end. Over the past year, the industry has been plagued by a supply glut that created massive pressure on memory chip prices. The industry responded earlier this year with unprecedented manufacturing capacity reductions. This supply discipline appears to be having the intended effect. Inventory levels are normalizing, and prices for key memory products have started to rise. In addition, there is strong demand for AI servers, which require lots of higher end memory products. As the market leader, Samsung will benefit meaningfully from the cyclical recovery in the memory market. In addition, it was the only company in a financial position to weather the downturn and maintain its investment levels, so it should emerge from this cycle with an enhanced competitive position. The shares remain attractive at 7X our estimate for normalized EBITA.

Pretty much all of our holdings rose during the quarter. Only one stock declined by more than a couple of percent—Alibaba, which was down 9% for the quarter and 11% for the year. This investment continues to be a disappointment. We estimate the shares are trading at around 5X EBITA—a valuation normally reserved for a company with evaporating profits. While it's true Alibaba is underperforming its peers in the market, the fact is it remains the market leader in its core businesses, and the business is still growing. In the most recent quarter, revenues grew 9% and profits grew 26%. It's not evaporating. The management seems to be making meaningful changes designed to enhance shareholder value, including structural changes to improve profitability and restore its competitive position. It is monetizing non-core assets and making improvements in capital allocation. A lot of good things are happening that are not yet recognized in the share price. There are reasons—primarily geopolitical—for this, but at the current valuation, we could easily see the shares double, and they would still be cheap.

We added no new positions during the quarter. We exited Willis Towers Watson and Sandoz Group. In the case of Willis, we simply lost confidence in the management team. Sandoz was spun out by Novartis to its shareholders. It is a generic drug manufacturer, and we found neither the business nor the valuation compelling.

Equity investors had a great quarter and great year, pretty much across the board. Our strategy performed well and notably was driven by broad-based performance rather than the narrow industry-specific performance that drove the index. We have no idea what the next year holds. The world today is very different from the one we have known over the past decade. Inflation is, in our opinion, likely to remain higher than pre COVID. Geopolitical risk is greater. Government debt levels are a real concern. We will continue to do what we have done for more than a decade: work hard every day to grow our clients' savings alongside our own while managing risk the best that we can.

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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. 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 Global Value Strategy Composite's total net assets as of 31 Dec 2023: Samsung Electronics Co Ltd 5.1%, UBS Group AG 5.0%, Danone SA 4.5%, Novartis AG 4.4%, Heidelberg Materials AG 4.3%, Elevance Health Inc 4.2%, Alphabet Inc 4.1%, Meta Platforms Inc 4.1%, The Bank of New York Mellon Corp 4.0%, Alibaba Group Holding Ltd 2.2%. 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.

MSCI All Country World Index measures the performance of developed and emerging markets. MSCI All Country World Value Index measures the performance of companies across developed and emerging markets that exhibit value style characteristics according to MSCI. MSCI EAFE Index measures the performance of developed markets, excluding the US and Canada. MSCI EAFE Value Index measures the performance of developed markets companies, excluding the US and Canada, that exhibit value style characteristics according to MSCI. S&P 500® Index measures the performance of 500 US companies focused on the large-cap sector of the market. MSCI China H Index measures the performance of large- and mid-cap Chinese companies incorporated on the mainland and traded in Hong Kong.The MSCI China Index captures large- and mid-cap representation across China A shares, H shares, B shares, Red chips, P chips and foreign listings (e.g., ADRs). The MSCI USA Index is designed to measure the performance of the large and mid-cap segments of the US market. The MSCI USA Value Index is designed to measure the performance of the large- and mid-cap companies in the US market that exhibit value style characteristics according to MSCI. MSCI Japan Index measures the performance of the large- and mid-cap segments of the Japanese market. MSCI Japan Value Index measures the performance of the large- and mid-cap companies in the Japanese market that exhibit value style characteristics according to MSCI. 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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