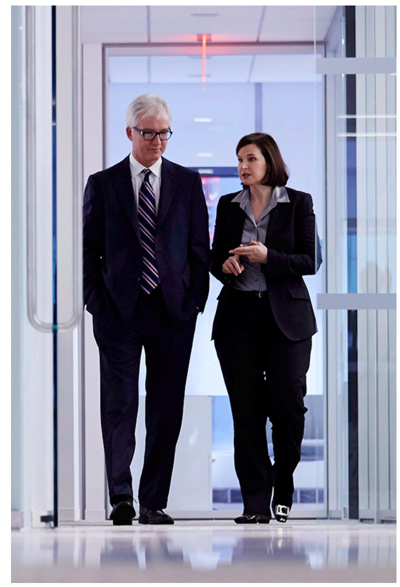
Artisan Partners Global Equity Team

Insurance Broker Delivers the Perfect Policy for Growth

Resilient Growth

Issue 3—December 2022



With economies slowing across much of the world and inflation still running at levels last seen when the Internet came with a printed booklet listing all users, many global growth investors are more closely scrutinizing companies' ability to grow fundamentals. Rising input costs, a volatile macro environment and cooling demand in some industries are making it difficult for many firms to generate the same level of cash flow as they did when economies were expanding and global demand was booming.

For Senior Research Analyst Claudia Corra, finding well-managed companies with resilient business models is something she has focused on for almost two decades as a member of the Artisan Partners Global Equity Team. Working from the firm's New York office, Claudia began her career 30 years ago at the Federal Reserve Bank of New York conducting foreign bank examinations and supporting FX and open market operations. Then, in 2003, Portfolio Manager Mark Yockey hired Claudia to research investment opportunities among foreign bank stocks. Under Mark's guidance, Claudia quickly branched out from researching bank stocks to a broader array of financial sector industries and companies. One of those industries was insurance brokerage.

Unlike banks that must manage large balance sheets or insurance companies that underwrite liabilities, insurance brokers earn fees and commissions by helping insurance buyers choose the best mix of carriers, lines and policies. This seemingly simple task becomes a complex operation for companies with a myriad of risks to cover such as professional liability, commercial property, product liability, digital and cyber security, and workers compensation. Payment for this expert advice is sometimes bundled with the insurance premium, providing a source of recurring revenue for brokers.

> "For companies like Aon, inflation is considered a tailwind."
>
> —Claudia Corra

An All-Weather Stock Benefiting from the Perfect Storm

Globally, brokers that facilitate services between underwriters and large companies operate in a relatively consolidated market where a small number of players account for the lion's share of the revenues. Claudia has researched these companies for many years and is especially drawn to the high cash flows and resilient business model of one company in particular: Aon.

As the second-largest insurance broker globally, Aon enjoys strong positions in the commercial, health, wealth and reinsurance segments. Reinsurance companies provide insurance against losses incurred by primary insurance companies and is a cost-effective way to write policies for large, catastrophic losses that would otherwise be difficult to cover. Insurance and reinsurance brokerage—segments driven by high-margin fees for placing that business—make up more than 70% of Aon's business, a point of differentiation that Claudia emphasizes. "That's one of the highest compositions among brokers," she explains with the confidence of a person who has tracked this figure for years. She goes on to convey her appreciation of Aon's steady, mid to high single-digit organic growth, expanding margins and high levels of free cash flow that have been increasingly shared with investors via dividends and share buybacks, a metric that she believes makes Aon one of the best performers in its peer group. "This speaks to the strength of their earnings," she sums up.

In the insurance industry, markets are generally either soft or hard. A soft market is characterized by dwindling demand for insurance and decelerating premium growth despite losses. During these times, insurers will often broaden coverage and relax underwriting criteria to try to fill excess capacity. Examples of soft markets include 2015 and 2016, years when premiums remained relatively flat despite the extensive damage caused by hurricanes and wildfires in the US and a deadly earthquake in Italy. Alternatively, hard markets are characterized by rising demand for coverage, falling supply, rising premiums and increased terms and conditions. Entering 2020, corporate policyholders already faced a hardening market when COVID-19 spread across the world, and with the massive losses brought about by the virus, the market became harder due to the large losses. In 2022, the huge losses associated with Hurricane Ian further reduced capacity. Inflation has been driving these mounting costs higher and has dramatically widened the range of outcomes. "The Florida reinsurance market has really become dysfunctional," explains Claudia, underscoring the extreme impact of events that have caused some reinsurance companies to withdraw from that market.

For Aon, however, neither the vacillating insurance cycle nor spiking inflation has materially affected its ability to generate cash flow. The company has such strong pricing power that it can meaningfully pass along fee increases when premiums rise in hard markets, while keeping fees relatively stable during softer markets. Even during economic recessions, Aon has historically experienced smaller drop-offs in revenues than what has occurred in the broader economy given its pricing power derived from the critical nature of its services. For instance, during an average downturn, businesses may reduce spending for line items such as travel, sales and advertising but will often refrain from materially cutting commercial insurance expenditures. Even during the depths of COVID, companies found it necessary to maintain insurance policies covering office buildings, equipment, and other physical and digital assets needed to stay afloat even as they let go of employees. Some types of commercial insurance coverages are so essential that they are required by law. As an example of this resilience, during the Global Financial Crisis, a time when many businesses were failing, Aon's revenues remained relatively stable.

Portfolio Stalwart

Beyond its all-weather qualities, the Global Equity Team has invested in Aon over the years for additional reasons. Like other top portfolio holdings, Aon has seemingly multiple ways to win. First, it maintains a strong market position, benefiting from being part of an oligopoly that dominates much of the corporate insurance market. While clients can and do move their business between brokers, realistically, they only have a short list of companies to choose from that have the scale and capabilities required to meet their needs. Combined with the fact that it boasts a client retention rate over 90%, Aon's market power has contributed to its resilient revenues and consistently strong cash flows. Second, Aon is led by a talented management team that has been particularly focused on managing costs and building shareholder value by selling off lower-margin, non-core units, such as human resources outsourcing, and has distributed much of this money back to shareholders in the form of dividends and share buybacks while investing in the fast-growing parts of the insurance brokerage market. These ventures include building a strong presence in the small, but rapidly growing area of cybersecurity insurance and launching a custom data analytics group that develops predictive insights for clients from its proprietary data. The latter includes helping clients model potential liabilities associated with climate change. "Their whole premise is that the more data and analytics they have, the better they can inform their clients on what types of insurance to buy and where they can increase or reduce coverage," Claudia explains.

On many levels, Aon is a poster child for the Global Equity Team's investment approach, showing what resilient growth can provide to a portfolio. In today's challenging environment, the team believes that companies like Aon—ones that can benefit from a structurally growing market and have the ability to maintain and grow margins despite macroeconomic headwinds—will ultimately be favored by investors.

Read more about how the Artisan Partners Global Equity Team pursues resilient growth.

For more information: Visit www.artisanpartners.com | Call 800.344.1770

Carefully consider the Fund's investment objective, risks and charges and expenses. This and other important information is contained in the Fund's prospectus and summary prospectus, which can be obtained by calling 800.344.1770. Read carefully before investing.

Current and future portfolio holdings are subject to risk. The value of portfolio securities selected by the investment team may rise or fall in response to company, market, economic, political, regulatory or other news, at times greater than the market or benchmark index. A portfolio's environmental, social and governance ("ESG") considerations may limit the investment opportunities available and, as a result, the portfolio may forgo certain investment opportunities and underperform portfolios that do not consider ESG factors. 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.

This summary represents the views of the portfolio managers as of 30 Nov 2022. Those views may change, and the Fund disclaims any obligation to advise investors of such changes. For the purpose of determining the Fund's holdings, securities of the same issuer are aggregated to determine the weight in the Fund. The holdings mentioned above comprised the following percentages of the Fund's total net assets as of 30 June 2023: Artisan International Fund—Aon plc 3.5% and Artisan Global Equity Fund—Aon plc 1.7%. As of 3 Mar 2022, Russian holdings are valued at zero. Securities named in the commentary, but not listed here are not held in the Fund as of the date of this report. Portfolio holdings are subject to change without notice and are not intended as recommendations of individual securities.

Foreign Exchange (FX) is the trading of one fiat currency for another. **Organic Growth** is the revenue and earnings growth a company achieves as a result of its own operations and resources rather than those attributable to mergers and acquisitions. **Free Cash Flow** is a measure of financial performance calculated as operating cash flow minus capital expenditures. **Share Buybacks** occur when a company buys its own equity shares on the open market in order to increase value of its remaining shares.

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

8/2/2023 – A23789L-vR