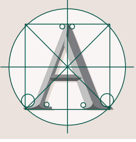

Artisan International Explorer Fund

QUARTERLY Commentary

Advisor Class: ARDBX | Institutional Class: ARHBX

As of 31 March 2024

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 (%)

As of 31 March 2024	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception
			Average Annual Total Returns				
Advisor Class: ARDBX	**4.36**	**4.36**	**9.77**	—	—	—	**11.40**
Institutional Class: ARHBX	**4.36**	**4.36**	**9.84**	—	—	—	**11.47**
MSCI All Country World ex USA Small Cap Index	2.11	2.11	12.80	—	—	—	7.54

Source: Artisan Partners/MSCI. Returns for periods less than one year are not annualized. Class inception: Advisor (16 May 2022); Institutional (16 May 2022).

Expense Ratios (% Gross/Net)	ARDBX	ARHBX
Annual Report 30 Sep 2023[1,2]	1.75/1.40[3]	1.59/1.35
Prospectus 30 Sep 2023[1,2]	1.78/1.43	1.62/1.38

[1]Net expenses reflect a contractual expense limitation agreement in effect through 31 Jan 2025. [2]See prospectus for further details. [3]Excludes Acquired Fund Fees and Expenses as described in the prospectus.

Past performance does not guarantee and is not a reliable indicator of future results. Investment returns and principal values will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than that shown. Call 800.344.1770 for current to most recent month-end performance.

Is There Wealth Creation Outside of the US?

It appears the Magnificent Seven has supplanted FAANG stocks as the poster child for investing in US equities. Investors can be forgiven for increasingly ignoring international markets given the continuing outperformance of the US market. Just when the US market seemed to be running out of steam due to valuation concerns at multiple junctures in recent years, it again surged ahead of the international market.

As an international investor, one's typical argument for allocating money in overseas markets runs as follows: US stock valuations cannot grow to the sky; their outperformance, as impressive as it has been, has to stop at some point; we cannot predict when, but it's prudent for an asset allocator to shift toward, rather than away from, international markets as the valuation gap between US and international markets widens.

Even we start to yawn upon hearing such an argument. So let's try this again. This time, we'll argue for international investing from first principles—that is without invoking valuation or relying on any existing asset allocation framework.

We created this portfolio a few years ago as a wealth-creation vehicle. You might wonder, isn't that so for every product ever created in our wealth management industry? No. In our opinion, most have been designed to satisfy some factor exposure, whether it's a style, such as value or growth, or a geography or a sector. These products can then be conveniently slotted into asset allocators' frameworks, which are typically organized based on a combination of different factor exposures. We certainly didn't make asset allocators' jobs easier. We designed this product with only one goal: to make our clients wealthier over time without taking undue risks.

Given our goal, we think the natural question one should ask is whether wealth can be created outside of the US. We believe any reasonable being would give a resounding yes, and our portfolio has been created to capture exactly that. The US has been a fertile ground for innovation and wealth creation in recent times, but investors should not forget the part of the world that accounts for around 75% of the world's GDP and over 95% of its population. For instance, Bernard Arnault (of LVMH in France) and Amancio Ortega (of Zara/Inditex in Spain) might not be household names in the US, unlike Elon Musk or Jeff Bezos, but it's undeniable that both have created substantial wealth for shareholders over the decades. For more intellectual property-driven businesses, generative artificial intelligence can be counted as a disruptive innovation coming from the US in recent years, but in the meantime, GLP-1, a new anti-obesity drug from Novo Nordisk in Denmark, has had a huge impact on millions of patients and is upending the entire global health care industry. We are not asking investors to pick sides; rather, we merely want to highlight the enormous wealth creation opportunity set available outside of the US.

Therefore, our job is to find and own a few dozen non-US businesses, either run by entrepreneurs or professionals, with, in our view, the best chances to compound shareholder value over many years to come. This is no factor exposure because every name in our portfolio stands on its own as an idiosyncratic wealth-creation story. We aim to identify companies that are relatively early in their journey and still small but also capable of eventually becoming well known like the examples given in the previous paragraph. It's how we invest without paying full price.

What We Bought and Sold in the Quarter

We initiated one name in the quarter.

We initiated a position in France-based Pluxee. It was spun off in early February by parent company Sodexo. Both are still controlled by the Bellon family, although Pluxee has been run by a professional CEO in recent years.

Pluxee operates a payment network that can be used by companies to offer benefits to their employees. Here's how its basic model works: A company signs up with Pluxee, preloads cash onto Pluxee-branded benefits cards and then distributes those cards to its employees. The employees can then use the cards to pay for meals, gifts and other selected products or services at designated merchants that accept Pluxee's cards. Before the advent of benefits cards, employees received meal vouchers that were a part of their benefits, and employees would redeem them at participating restaurants. Nowadays, everything is digital as you can imagine.

Meal vouchers are common in many countries, primarily because employers can save tax. It's notable that close to 40% of Pluxee's revenue is from Latin America, mostly Brazil. Meal vouchers were introduced half a century ago as part of the labor regulation, so it's well entrenched in Brazil and in all of the other major countries where Pluxee is present.

Pluxee has two major revenue streams: One is the take rate on each transaction it charges both corporate clients and merchants, with the fee from the latter accounting for a vast majority; the second is float income, or the interest income earned on cash from corporates funding their benefits cards before that cash is disbursed to merchants.

The business model is similar to Visa/Mastercard. The crucial difference is that Visa and Mastercard run on an open network whose cards can be used almost everywhere to pay for virtually any good or service globally. However, Pluxee's cards can only be used by employees of contracted clients at designated merchants on a so-called closed network. Nonetheless, Pluxee and its major peers exhibit some of the same characteristics as the two major credit card networks, such as high margins and high barriers to entry driven by two-sided networks.

It is a close No. 2 globally in this industry behind another domestic peer, Edenred. However, Edenred has been enjoying faster growth with much higher margins in recent years. We don't see any structural reason why this should be the case. We believe that becoming an independently listed entity with newly installed incentive schemes for management will start to unleash Pluxee's potential to close, if not eliminate, its gap with Edenred. We bought its shares at mid-teen times current earnings, ex-cash.

We sold two names in the quarter.

Mexico-based Qualitas was a name we held since inception. It's the country's leading auto insurer with close to a third of the market. It's an extremely well-run company with a cost-conscious corporate culture that prioritizes profit over market share. We reluctantly parted ways with it as the share price, at close to 4X P/B or 20X P/E based on its normal earnings power, crossed our intrinsic value target.

Italy-based ENAV was another name we held since inception. As far as we know, it's probably the only listed air navigation service provider (ANSP) in the world. An ANSP is a regulated entity that manages air traffic. Airlines pay ANSPs fees on a per-passenger basis to have access to the regulated air space in a particular country or region. ENAV, controlled by the Italian government, basically regulates air space in Italy as a regulated monopoly. We initiated our position when its business was impacted by COVID-19. Air traffic in Italy has nicely recovered above its pre-COVID level. However, new management that came in last year has indicated a strong desire to allocate capital into other non-core areas. Despite a still reasonable valuation, we decided to exit the position.

Top Contributors and Detractors

We outperformed our benchmark by about 225bps this quarter.

Our top two contributors in Q1 were Despegar.com and Hensoldt.

Despegar.com is one of the largest online travel agencies in Latin America. Think of it as the Expedia of the continent. The stock has been a top performer for two quarters in a row. It reported good Q3 earnings late last year and again announced solid full-year earnings this quarter. Its travel volume has already surpassed its pre-COVID level, and thanks to a much leaner post-COVID cost structure, its margin is now well ahead of its pre-COVID level. We expect the company to deliver a record-high margin this year. Despite a big share price jump over the past half a year, we continue to believe its share price is inexpensive.

Hensoldt is a German defense business. The German government owns close to a quarter of the business. The company specializes in electronic sensors that detect and track moving objects. It reported solid 2023 earnings as well as a robust order pipeline in the quarter. Beyond company fundamentals, we believe the ongoing Ukraine war, the Gaza crisis in the Middle East and the prospect of Donald Trump getting reelected as US president and subsequently pulling the plug on NATO defense funding, have all contributed to positive sentiments around the European defense sector. The increasing geopolitical tensions across multiple regions in the world have significantly sharpened Europe's focus toward defense spending in recent years. We thus believe Hensoldt can continue to grow at a double-digit rate for several years to come. We did trim our position toward the end of the quarter as its valuation ran up into the mid-20s times free cash flow.

Our bottom two detractors in Q1 were Medmix and IQE.

Medmix is a Switzerland-based company that makes high-precision delivery devices, such as mixing tips, which are designed to mix and deliver liquids. Health care accounts for roughly 40% of its revenue but the majority of its profit. Within health care, dental is by far its biggest end market, where Medmix enjoys good market share as a global leader. Dental is also where the problem lies in recent periods—in 2022, as dental surgeries started to recover from COVID-related restrictions, industry dealers rushing to order inventory led to an overbuild in the channel. But this didn't become a problem for the whole supply chain until the second half of last year when patients pushed back elective surgeries because of a tougher macro environment. Medmix is not immune to the inventory overbuild. As a result, it had to cut its guidance during the second half of last year and issued what we considered to be weak full-year numbers earlier this year. We've held onto our shares as we believe the worst of the dental channel inventory issue is behind us.

IQE is a UK-based upstream materials provider in the semiconductor industry. The company specializes in making compound semiconductor wafers and is one of the few players globally that possess the process know-how. A compound semiconductor, in contrast to a conventional silicon-based one, consists of chemicals belonging to two or more elements from the periodic table. Your mobile phone, for example, contains a lot of such compound semiconductor chips. Last year was tough for IQE as it was severely impacted by the slowdown in mobile phones, one of its biggest end markets. As its share price dropped significantly, we bought more. Its 2023 full-year trading update at the beginning of this year was actually in line with market expectations. Later in the quarter, Aixtron, a German company that supplies IQE with production equipment, issued weak earnings guidance. We believe it was this guidance that spooked investors across the entire compound semiconductor industry. Our faith in IQE's long-term fundamentals, however, has remained intact. In fact, post quarter-end, IQE reported upbeat full-year earnings, and as of mid-April, its share price had subsequently rebounded strongly.

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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. 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.

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 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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This summary represents the views of the portfolio managers as of 31 Mar 2024. 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. These holdings comprise the following percentages of the Fund's total net assets (including all classes of shares) as of 31 Mar 2024: Despegar.com Corp 7.0%, Pluxee NV 1.8%, IQE PLC 1.8%, Hensoldt AG 1.6%, Medmix AG 1.2%. 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. All information in this report, unless otherwise indicated, includes all classes of shares (except performance and expense ratio information) and is as of the date shown in the upper right hand corner. This material does not constitute investment advice.

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.

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Free Cash Flow is a measure of financial performance calculated as operating cash flow minus capital expenditures. **Price-to-Book (P/B) Ratio** is a valuation measure used to compare a stock's market value to its book value. **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.

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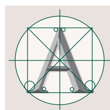
A R T I S A N  P A R T N E R S