



# Artisan International Value Fund

QUARTERLY  
Commentary

Investor Class: ARTKX | Advisor Class: APDKX | Institutional Class: APHKX

As of 31 December 2021

## 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.

## Portfolio Management

N. David Samra  
Portfolio Manager (Lead)

Ian P. McGonigle, CFA  
Co-Portfolio Manager

Joseph Vari  
Co-Portfolio Manager

## Investment Results (%)

As of 31 December 2021	Average Annual Total Returns						
	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception
<b>Investor Class: ARTKX</b>	<b>4.38</b>	<b>16.69</b>	<b>16.69</b>	<b>16.22</b>	<b>10.39</b>	<b>10.47</b>	<b>12.08</b>
<b>Advisor Class: APDKX</b>	<b>4.44</b>	<b>16.86</b>	<b>16.86</b>	<b>16.39</b>	<b>10.55</b>	<b>10.59</b>	<b>12.14</b>
<b>Institutional Class: APHKX</b>	<b>4.45</b>	<b>16.97</b>	<b>16.97</b>	<b>16.49</b>	<b>10.65</b>	<b>10.72</b>	<b>12.27</b>
MSCI EAFE Index	2.69	11.26	11.26	13.54	9.55	8.03	7.91
MSCI All Country World ex USA Index	1.82	7.82	7.82	13.18	9.61	7.28	8.34

Source: Artisan Partners/MSCI. Returns for periods less than one year are not annualized. Class inception: Investor (23 September 2002); Advisor (1 April 2015); Institutional (1 October 2006). For the period prior to inception, each of Advisor Class and Institutional Class's performance is the Investor Class's return for that period ("Linked Performance"). Linked Performance has not been restated to reflect expenses of the Advisor or Institutional Class and each share's respective returns during that period would be different if such expenses were reflected.

Expense Ratios	ARTKX	APDKX	APHKX
Annual Report 30 Sep 2021 <sup>1,2</sup>	1.18	1.04	0.95
Prospectus 30 Sep 2020 <sup>2</sup>	1.26	1.12	1.03

<sup>1</sup>Excludes Acquired Fund Fees and Expenses as described in the prospectus. <sup>2</sup>See prospectus for further details.

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.



### Market Discussion: The Era of Great Liquidity

With the S&P 500® Index rising 27% in 2021, there was little point investing elsewhere. That's a remarkable return driven by astonishing gains among globally dominant and fantastic companies, such as Apple (34%), Microsoft (51%), Alphabet (65%), plus breathtaking performance by other large index components, such as Tesla (50%) and Nvidia (125%). And the share-price performance was justified: Operating profit over the last 12 months grew 64% for Apple, 32% for Microsoft, 108% for Alphabet, 150% for Tesla and 100% for Nvidia.

Sure, these powerhouse companies' earnings benefited to varying degrees from a recovery relative to COVID-impacted 2020, but fundamentally, these businesses performed well. However, strong fundamentals were not the only game in town. A flood of liquidity from central bank bond purchases and a lack of investment alternatives due to central bank-suppressed interest rates served to increase valuations beyond levels that would make most value investors blush. The liquidity-driven mania created crowded trades across glamorous, growth-oriented, party discussion-worthy, Uber driver-owned new investments like meme stocks, tech and biotech companies with no earnings, SPACs and cryptocurrencies.

Other factors fueled those big tech returns, including the unattractive bond market. Short- and long-term bond yields are steeply negative on a real basis (adjusted for inflation) and, for much of the world, are negative on an absolute basis. Plus, many of the powerhouse businesses outside the US operate in China, where equities had a terrible year as the Chinese government ramped up regulations and the broader economy slowed.

So foreign growth stocks sellers and disenfranchised bond investors joined central banks seeking return. They crowded into companies and assets deemed safe. Prices rose. The news was good. And ... boom!

Outside the US, the market environment was more challenging though by no means lackluster. Developed market indices were up just over 11.0%. But that is a mirage as the strong dollar shaved off just under 7.5%. The MSCI EAFE Index in local currency was up just under 19.0% in 2021.

Emerging markets fared much worse, with local currency indices roughly flat. Chinese equities down 22%, and Brazilian equities down 11%, were the main culprits. Both have been hurt by COVID and individual political developments, though very different in nature. Control of the Chinese economy is firmly in President Xi Jinping's hands, and his mandated increased regulation and COVID-related lockdowns have ground the economy to a halt. Brazil's more messy democracy resulted in rampant COVID infection. Brazil's economy remains in recession, and politics are taking an unhelpful lurch to the left.

Bond investors, as mentioned, also had a tough 2021. Investors in US Treasuries and eurobonds earned low single-digit negative returns and, on a real basis high single-digit negative returns.

Commodities prices, excluding precious metals, increased significantly in 2021. The IMF World Commodity Prices Index increased 50%, driven by oil and gas, non-precious metals and agricultural commodities—basically everything that is consumed. Higher commodities prices along with wage growth—the Atlanta Federal Reserve Bank reported three-month moving average wage growth increased to 4.3% in September—means meaningful inflation has arrived. Inflation is a large, destabilizing factor for markets, politics and consumers. We've all seen it—the jump in food prices, gas prices and so on. As for your stock portfolio, inflation can wreak havoc, some of which we've already seen in 2022's early weeks.

Thus, central bankers' "do no harm" attitude requires an adjustment. Let's face it: Central banks around the globe helped get us here. For a long time, they have flooded markets with liquidity by monetizing debt and holding interest rates below inflation. Call it *The Era of Great Liquidity*. A widely cited Bank of America report published in December 2021 noted some \$32 trillion (all figures USD unless otherwise stated) of liquidity had been injected into markets since the pandemic-induced crash in March 2020—the equivalent of 17 Alphabets at the time of the report. Where has all this liquidity gone? One good example is bitcoin. A nearly 60% increase in the bitcoin exchange rate relative to the US dollar lured investors seeking outsized returns. Now about \$365 billion of that liquidity resides in the 21 million bitcoins in "circulation."

Elsewhere, this easy money policy has allowed—even encouraged—consumers, businesses and governments to spend well beyond what would be affordable if interest rates were positive on a real basis. For many years, inflation was modest in the face of loose monetary policy and strong economic growth. The world's central banks took the easy way, opting for an economic sugar high—*go ahead, have another cookie*. Low interest rates, good economic growth and low inflation are elixirs for the stock market and other capital assets, from real estate to digital currencies.

That was then. We now are facing very different times. For starters, the demand-supply equation is painfully out of whack due to the long period of easy money (boosting consumer demand) and a world struggling to produce and distribute the goods people want (supply) amid a lingering pandemic that has challenged manufacturing and supply chains. As a result, central banks face a tough choice between potentially impoverishing consumers over the long run if nothing is done to curb inflation or increasing the cost of money by raising interest rates, either directly or indirectly. Increasing the cost of money hurts borrowers wanting to purchase, say, homes or autos, or "stimmy checks." And when interest rates rise, investors flee speculative assets for safer short-term fixed income and solid, cash flow-generating businesses. All the money that crowded into what

looked like exciting investments last year will likely not be as safe in a high-inflation environment.

This short treatise is not intended as a forecast, since our ability to forecast markets is pretty limited. Instead, it's a linear analysis of markets and economics, which admittedly do not operate linearly. So we will conclude, as safety-seeking value investors, by noting that crowds elevate valuations, and elevated valuations generally lead to risk, not reward.

## Portfolio Discussion

	Largest Contributors to Return	Largest Detractors
2021 Full Year	ING Groep	Alibaba Group
	ABB	Samsung Electronics
	Cie Financiere Richemont	Fresenius Medical Care
Q4 2021	Cie Financiere Richemont	Alibaba Group
	Arch Capital Group	Danone
	ABB	Indus Towers

Source: Artisan Partners/FactSet.

## Largest Contributors to Return

### ING

While European bank stocks generally did well in 2021, ING performed exceptionally well—up almost 70% in euros. ING is the largest domestic lender in the Benelux and also has fintech operations with strong market positions in major markets including Australia, Germany, Spain, France, Italy and several Eastern European markets. ING is profitable, and it operates with significant excess capital that it's accumulated over several years through retained earnings. The pandemic's onset led to a regulatory moratorium on distributions to shareholders, who reacted by pushing the share price down to levels last seen during the 2008 financial crisis. Back in 2008, ING was thinly capitalized, overdiversified and losing money—a very different profile from its profitable and overcapitalized position in 2020. We saw this as an opportunity and increased our position, and the price rebounded 60% from the 2020 bottom. Even after that impressive gain, the shares remained cheap, trading at 58% of book value—though even that simple statistic understates the undervaluation. At the time, the bank carried an estimated €12 billion of excess capital on a market cap of €30 billion. Net of that excess capital, the shares traded at 4.6X our estimate of normalized earnings. In 2021, conditions changed. The pandemic receded, leading to relaxed regulatory restrictions on shareholder distributions. In addition, profits boomed as provisions set aside for pandemic-era credit losses proved unnecessary. Additionally, a new CEO appointed in July 2020 has done a great job focusing the business on profitable geographies. Changes to the business have both improved profitability and increased the company's already overcapitalized balance sheet. The share price has rebounded close to book value—a much more reasonable valuation.

### ABB

ABB, the Switzerland-based industrial electronics conglomerate, has gone through a restructuring over the last several years resulting in a number of positive outcomes. For example, the company shed a major division and identified several mid-sized business units it can do better without. In addition, the company operates a fast-growing e-vehicle charging business it hopes to take public at an elevated valuation. ABB's new CEO has executed a strategy focused on reducing corporate control and administration to empower business unit leaders through decentralized decision making and unit-based incentives. The results have been powerful, driving profitability above the company's near-term goal of 15%. Historically, ABB's profit margins were closer to 10% and subject to considerable volatility. The market in 2021 recognized increasing profits and improved management and earnings quality. In local currency, the share price increased 12% during the fourth quarter and 44% for the full year.

### Richemont

Richemont is a Switzerland-listed holding company controlled by South African billionaire Johan Rupert and is one of the world's leading luxury goods companies. Shares of Richemont became very attractive in 2015, when the Chinese government restricted the common practice of gifting luxury goods. Demand for Richemont's jewelry and watch brands, such as Cartier, Van Cleef & Arpels, A. Lange & Söhne and others, declined meaningfully. We purchased shares at a steep discount based on internal estimates of normalized demand from China. At the same time, the company made a sizeable investment in a leading luxury goods e-commerce platform. That platform was losing money, which further depressed profits. Since that time, demand for luxury goods globally, including China, have increased significantly, and investors have begun recognizing the strategic long-term value of the company's e-commerce business. In local currency, the share price increased 42% in the fourth quarter and 75% in 2021.

### Arch Capital

We initially purchased shares of Arch Capital in 2003, when the group's tangible shareholder's equity was close to \$1.7 billion. A holding company operating a multiline property casualty insurance business, Arch has three divisions that underwrite insurance, re-insurance and mortgage insurance. Today, after years of high-return compounding and smart capital allocation, tangible book value is about \$11.6 billion. Over that same period, the number of shares outstanding has declined almost 40%—from over 650 million to today's approximately 400 million. That means book value per share has increased from about \$3.85 per share to \$29.00, or 653%. Arch Capital is financially disciplined and effectively cycle manages its three lines of business—that is, the company underwrites aggressively when pricing is strong and returns are good, and it reduces exposure when pricing is weak and returns are low. The pandemic's 2020 onset was a difficult time for the group's mortgage insurance business. The increased risk of mortgage defaults demanded a build-up of risk provisions, hurting profits and hampering book value growth. 2021

proved much better in two ways. First, mortgage default notices turned out to be modest and, combined with significant increases in home prices, considerably diminished the embedded risk in the group's mortgage insurance policies. Second, due to years of poor returns in the property casualty insurance and re-insurance industry, pricing has finally started to turn. Arch has increased premiums written by over 30% in the last two years. Profits from those increased premiums are expected to positively impact profits and book value during 2022 (barring any major natural disasters). In the meantime, the company continues repurchasing shares below intrinsic value. In the fourth quarter, the share price increased 16% in local currency.

### Largest Detractors From Return

#### *Alibaba*

Alibaba has been a rollercoaster of an investment. Recall that we initially purchased Alibaba's shares during the March 2020 selloff, sold our entire position in Q4 2020, then proceeded to rebuild a position in mid-2021. Our original investment thesis in March 2020 was that the company's core e-commerce business was undervalued at 15X normalized earnings when other valuable businesses were considered, including Alicloud and Ant. The stock appreciated rapidly through Q3 2020 due to a resilient core commerce business and market excitement around the Ant IPO. However, in Q4 2020, regulators called off the Ant IPO, and in December the Chinese government launched an anti-monopoly investigation into Alibaba. At the time, we thought the stock price selloff did not fully reflect the anti-monopoly headwinds. We expected slowing top-line growth and flattish earnings in 2021, given increased regulatory scrutiny and the company's weakened ability to compete aggressively with peers. Hence, we sold our entire position at a considerable gain.

We revisited the stock in mid-2021, after a 25% decline. Since our re-entry into the stock, the business has faced ongoing regulatory, macroeconomic and competitive headwinds. What we considered a sober initial forecast unfortunately turned out to be an underestimation of the regulatory scrutiny's severity and its impact on competitive dynamics.

In the first half of 2021, the government directed Alibaba to pay a \$2.8 billion antitrust fine and eliminate any "two pick one" exclusive agreements with merchants. Alibaba favored merchants exclusively selling goods on Alibaba platforms Taobao and T-Mall. If a merchant also sold goods via an outside platform, purchasing traffic would be diverted to other, compliant merchants. Chinese antitrust regulators put an end to this practice. While we expected incremental market-share loss and margin erosion from regulatory scrutiny and competitive pressures, we believed Alibaba's comprehensive e-commerce ecosystem remained compelling for consumers and merchants. Hence, we expected it to keep core marketplace e-commerce margins above 50% longer term versus 60%+ in 2020.

With regard to company fundamentals, our over-estimate of earnings power misgauged both the impact of competition on growth and Alibaba's increased appetite to invest to counter such competition.

Due to both a slowing macro environment and increased competition, growth in the core Taobao and T-Mall marketplace e-commerce business slowed to 3% in the most recent quarter versus 14% the quarter prior and a mid-teens growth rate over the last two years. On a macro level, Chinese consumption growth has slowed largely due to COVID shutdowns and a property market crackdown. On a fundamental basis, while we foresaw increased competition, we were surprised at the speed with which merchants diversified e-commerce channels upon the end of "two pick one." In addition, though we were aware of the traffic advantage possessed by livestreaming e-commerce platforms, competitors TikTok and Kuaishou gained market share faster than we had underwritten. Given increased user acquisition pressures and more merchant freedom, even as its profit center slowed, Alibaba has chosen to invest aggressively (Rmb 18.9 billion of strategic investments) in new growth platforms to acquire new users and discounts to support merchants. The combination of slowing growth and increased investment compressed margins and resulted in operating profit contracting 28% in the most recent quarter.

The news kept getting worse. Headlines regarding potential investment restrictions for US investors and American depository receipt (ADR) delisting likely spooked investors. The US Public Company Accounting Oversight Board is demanding complete access to the books of US-listed Chinese companies, while Beijing continues to bar foreign inspection of working papers from local accounting firms. A resolution has yet to be found. In addition, China has tightened overseas listing approvals by revamping regulation around the legal structure companies typically used—though regulators have specified current listings are unlikely to be affected. We have mitigated these risks by switching ADRs to the Hong Kong listing. Another risk results from US Treasury department restrictions on US citizens' ability to buy or sell any publicly traded securities of 59 specific Chinese military-industrial complex companies, regardless of where the security is listed. While Alibaba is not on the list, and we see a very low likelihood it is added, other companies continue to be added. If that happened to Alibaba, we would only have a 60-day window to continue transacting in the shares.

Alibaba's share price declined 41% in 2021 and 18% in the fourth quarter alone. While challenges abound, we return to the fact that this remains a very good business now trading at a quite discounted valuation. Limited new guidance from management on longer term growth and margins during the investor day has not alleviated market skepticism. But management is clear on the need to offer the best value proposition to merchants and consumers. The recent senior management reshuffling suggests it knows Alibaba needs to compete more nimbly and aggressively. While its dominance is being challenged, over 20% of retail sales in China are transacted on Alibaba's retail platforms. Alibaba remains the most comprehensive platform, with sophisticated customer segmentation strategies and wide product categories targeting diverse customer needs.

The stock trades at 15.0X March 2022 earnings and 12.5X March 2023 earnings, 2.3X price-to-sales (P/S) and 2.2X price-to-book (P/B).

Alibaba's shares now discount a fairly negative scenario for medium-term growth and margins. We expect the business to generate over \$20 billion in free cash flow next year and the balance sheet to remain robust, with over \$50 billion in net cash in March YE 2022. The management team has announced its largest ever share buyback program of \$15 billion through 2022.

While e-commerce will remain the profit center over the medium term, Alibaba has multiple revenue growth engines, such as Alicloud. We assume core e-commerce gross merchandise value grows at 8% per year and core margins incrementally fall before bottoming. Applying a 15.0X multiple to our forecast of core commerce after-tax profits and adding back \$40 billion of value for the company's cloud business, \$33 billion of value for the company's financial services business (Ant) and \$85 billion for investments and net cash gets us to an expected return of 45% from current levels. Note our cloud valuation represents 3.5X forward sales, a third of the implied P/S multiple for Amazon Web Services. In addition, we ascribe no value to the company's new retail and digital media business lines, which represent \$50 billion in revenues. In comparison, competitor Meituan's valuation could imply 3.0X P/S for Alibaba's comparable initiatives.

#### *Samsung Electronics*

Shares of Samsung, the portfolio's largest position, also hurt performance for the year. In local currency, the shares were down 2%, but due to the Korean won's depreciation relative to the dollar, the portfolio recorded a loss of just over 10%. We find nothing fundamentally wrong with the business. In fact, the company's core semiconductor manufacturing operations are experiencing improved fundamentals, the group's handset business has an improved business mix and the company's foundry and display businesses should support profit growth over the next few years. In terms of valuation, backing out the company's excess cash and securities, the shares trade at about 5.1X normalized operating profit.

#### *Fresenius Medical Care*

Fresenius is the world's largest provider of kidney dialysis products and services. In the US, the company dominates the sale of kidney dialysis equipment and runs an effective duopoly in dialysis services provision. COVID has hurt the company's business in the form of both higher patient mortality rates and increased costs. Also, some capital allocation and operating errors have reduced profits in what should be a growing, utility-like earnings stream. The share price fell 15% in local currency during 2021. We are in direct dialogue with management and the board regarding resolving some of the company's issues. Also, the new chairman of the company's ultimate holding company is demanding better performance. As the treatment of kidney failure remains a growing market globally, the company's patient base will naturally be restored, and the equipment business will continue growing. Better execution should lead to better financial performance over the next few years.

#### *Danone and Indus Towers*

The share prices of Danone, a French food company, and Indus Towers, an Indian cell phone tower operator, declined 7% and 19%, in their local currencies respectively, during the fourth quarter. There are no fundamental developments to report that would have prompted such declines. Of course, Danone, like all food companies, is facing the dilemma of how to adjust to increasing raw materials prices. Indus Towers has an ongoing issue related to the financial condition of one of its major customers. The fourth quarter of 2021 offered no new information regarding these issues, although we should note that in the first quarter of 2022, Indus Towers has mainly resolved its financing issues. For 2021, the share price of Danone increased 5%, and the share price of Indus Towers increased 16% in their respective local currencies.

#### *Portfolio Changes*

During the quarter, we made meaningful new investments in two UK-domiciled companies, Willis Towers Watson (WTW) and Associated British Foods (ABF).

Long-term investors will recognize Willis Towers Watson since it was in the portfolio from 2018 to early 2021. We exited that investment after WTW agreed to merge with Aon. Unfortunately for WTW and Aon, that proposed merger was rejected by the US Department of Justice in July 2021. In fact, there is significant market power in this industry, which is what makes it a great business. That market power is exerted not with the insurance brokers' corporate customers, but with their suppliers (insurance underwriters). We were surprised at Aon's attempted merger, and our concerns regarding antitrust approval encouraged us to sell.

WTW operates two businesses: insurance brokerage and HR consulting. Both are market-leading with attractive financial profiles and mostly recurring revenue streams. Despite these strengths, WTW operates with lower margins versus peers. The margin opportunity is most pronounced in the insurance brokerage business. Management has slowly increased the insurance brokerage margin over time, but a large gap remains with best-in-class peers like Marsh & McLennan and AJ Gallagher. Management presented a plan to increase the insurance brokerage business's margins 5% by year-end 2024. This plan follows the outline other insurance brokers have previously used to increase their margins—giving us confidence the targets are achievable.

The merger's demise brought a new and experienced CEO, a new CFO and a refreshed shareholder-aligned board of directors. In addition, the merger's cancellation transformed the company's financial position. As part of the agreement, Aon paid WTW a \$1 billion "break fee." WTW also sold a re-insurance brokerage business for \$3.25 billion along with the potential to earn \$750 million through an earnout agreement. With the proceeds, WTW expects to repurchase approximately \$4 billion of stock between the second half of 2021 and the end of 2022. With existing cash on hand and cash generation over the next three years, we estimate the company can return another \$6 billion to shareholders through dividends and share repurchases.



representing over 20% of today's market capitalization. We forecast earnings of approximately \$20 per share in 2024—a price to earnings (P/E) ratio of 11.5X. We believe that valuation significantly undervalues this high-quality business.

ABF is a family-controlled holding company operating in both the food business and off-line retail. The founding Weston family owns 51% of ABF, and George Weston, a family member, serves as CEO. ABF's food-related divisions make up approximately 67% of 2021 operating profit. The largest part of the food business includes branded products and ingredients businesses that have strong market share in valuable, growing niches. The rest of the food business is a commodity sugar division where the company benefits as a global low-cost producer. The remainder of ABF's profit is generated by Primark, a UK and European brick-and-mortar apparel retailer. Primark is the lowest cost apparel retailer in Europe and perhaps in the world. Everything about the business model is designed to deliver ultra-discounted apparel price points well below what all traditional physical, as well as almost all online (we found just one), retailers can match. While Primark's physical retailing model is on the wrong side of the shift toward e-commerce, the low-cost optimization should allow it to continue gaining physical retail share as brick-and-mortar competitors go under. A scalable cost structure has allowed the store model to produce double-digit operating margins and double-digit returns, even while customer activity is below pre-COVID levels. We think Primark is a valuable franchise that, once COVID restrictions are lifted, has significant room for growth.

The family runs this business very conservatively, and this has paid off. For example, its net cash balance sheet and cash flow from its food divisions allowed ABF to navigate the volatility from Primark's COVID-related store closures in 2020.

The market capitalization at the time of purchase was £13.7 billion. With £1.7 billion of normalized net cash, the enterprise value was £12 billion. ABF's food businesses, fully burdened for corporate overhead, will do £710 million of EBIT in 2021 and we estimate £780 million in 2022. If we assume Primark has no value, we paid roughly 20X earnings for the core food businesses. Including Primark, ABF was purchased at 7.5X 2022 EBITA and 12.2X 2022 net earnings. Excluding the company's cash, the P/E was 10.7X.

### Positions Closed

During the quarter, shares of both Tesco and Vivendi were sold as they reached our estimates of intrinsic value.

### Politics and Money

*"When the people find that they can vote themselves money, that will herald the end of the republic."*—Benjamin Franklin

*"Audit the Federal Reserve and make it a more democratic institution so that it becomes responsive to the needs of ordinary Americans."*—Senator Bernie Sanders, Chairman of the Senate Committee on the Budget

As international investors, we observe and study multiple political and economic models over many market cycles. All models have their flaws, but one significant flaw stands out in democracies: Politicians often put their desire to be re-elected ahead of what's financially best for society. Financial expediency is especially dangerous when a government loses sensitivity around deficit spending, the national debt becomes so large increased interest rates start to have a material impact on the deficit, and inflation hurts the lives of all citizens. Today, those three characteristics describe the majority of the developed world, including the US. Leaders have a Hobson's choice.

Let's consider another country's example: Turkey. For the past several years, the Turkish economy has run with a double-digit inflation rate. In late 2020, the newly appointed central bank head raised interest rates sharply over his five-month tenure in a bid to tame inflation. As a result, the economy slowed and President Recep Tayyip Erdogan, who is facing re-election in 2023, lost significant support for his political party. In an effort to improve his re-election prospects, in March 2021, President Erdogan outlined a highly unorthodox, even bizarre, approach to reducing inflation—namely, cutting interest rates. Lower rates incentivize borrowing and therefore increase economic activity, in turn contributing to inflation. But Erdogan declared that lower rates would increase Turkey's competitiveness and allow it to grow its way out of inflation. To implement this policy, Erdogan replaced the central bank head with a political ally who would (and did) implement Erdogan's desired rate cuts. As any first-year macroeconomics student could have forecast, the result has been rising inflation and a deteriorating lira (the Turkish lira devalued by 84% versus the dollar over the last 12 months). For the developed world, Turkey's dilemma offers an illuminating look at what happens when a government must choose between raising rates (and potentially losing an election), which it knows will slow the economy in the short term, and lowering them, which it knows will impoverish the population by triggering higher inflation over the long term.

Turkey's economic backdrop is dire. According to *The Economist*, Turkey reports an unemployment rate of 11%, a slowing economy and an inflation rate of 36%. While those figures are far worse than those reported in the US, there are similarities between the two nations. The US runs both large current account and budget deficits. In fact, both deficits as a percent of GDP are larger than those reported in Turkey—yet, rather than depreciating, the dollar has appreciated versus other currencies (unless measured against bitcoin). What's the difference? The US benefits from a stable political system and, more importantly, the US dollar is the world's reserve currency. Most countries hold dollars in foreign exchange reserves to use for international transactions, which are done in dollars, or to make investments where the dollar is the standard medium of exchange. Reserve currencies are considered hard currency, effectively a safe haven. Hence, the US has room to behave badly—in this case, monetizing debt, running large

deficits and setting interest rates well below inflation. Turkey does not have such leeway. Everyone needs dollars, but only Turks need the lira.

That said, there are no hard and fast rules about how badly the US government can behave before it undermines its own elevated status. In fact, several countries, including China, are striving to move away from the dollar as the world's reserve currency. The longer the US runs big deficits or pressures the Federal Reserve to keep interest rates unnecessarily low, the closer we get to that hypothetical line we do not want to cross. Maintaining hard currency status is the difference between a functioning society and the inflation that continues devastating Turkey's population.

### Perspective

On a more upbeat note, the group here at Artisan Partners International Value would like to thank you for your support over the almost 20 years we have managed this portfolio. We recognize the sanctity of the capital you have entrusted to us and work tirelessly to invest that capital while keeping in mind both potential returns and risks. Please find the following recent photo of our team, including our irreplaceable management personnel, Linda Yee and Erica de Leon; our diligent security analysts Paul Fagan, Amy Sheng, Tyler Redd, Charlie Page and Ben Herrick; my talented and disciplined co-managers, Joe Vari and Ian McGonigle; the incredible new Artisan International Small Cap Value managers, Beini Zhou and Anand Vasagiri; and the best institutional sales team in the industry, Ed Omata and Bob Paulson.

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*From left to right:* Ed Omata, Beini Zhou, Ian McGonigle, Erica de Leon, David Samra, Robert Paulson, Amy Sheng, Anand Vasagiri, Linda Yee, Joe Vari, Tyler Redd, Benjamin Herrick, Charles Page, Paul Fagan

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For more information: Visit [www.artisanpartners.com](http://www.artisanpartners.com) | Call 800.344.1770

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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. 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 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.

MSCI EAFE Index measures the performance of developed markets, excluding the US and Canada. MSCI All Country World ex USA Index measures the performance of developed and emerging markets, excluding the US. S&P 500<sup>®</sup> Index measures the performance of 500 US companies focused on the large-cap sector of the market. IMF World Commodity Prices Index measures the weighted average of select commodity price indices, based on identified benchmark prices which are representative of the global market. 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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**Price-to-Earnings (P/E)** is a valuation ratio of a company's current share price compared to its per-share earnings. **Operating Profit Margin** is a ratio used to measure a company's pricing strategy and is a measurement of what proportion of a company's revenue is left over after paying for variable costs of production such as wages, raw materials, etc. **Price-to-Sales (P/S) Ratio** is a valuation ratio of a company's current share price compared to its per-share sales. It is an indicator of the value that financial markets have placed on each dollar of a company's sales or revenues. **Price-to-Book (P/B) Ratio** is a valuation measure used to compare a stock's market value to its book value. **Normalized Earnings** are earnings that are adjusted for the cyclical ups and downs over a business cycle. **Free Cash Flow** is a measure of financial performance calculated as operating cash flow minus capital expenditures. **Market Cap** is the aggregate value of all of a company's outstanding equity securities. **Normalized Operating Profit** are profits adjusted to remove unusual or one-time occurrences.

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