



### 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 (% USD)

As of 30 June 2024	Average Annual Total Returns						
	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception <sup>1</sup>
<b>Composite — Gross</b>	<b>2.71</b>	<b>7.60</b>	<b>15.06</b>	<b>4.59</b>	—	—	<b>15.67</b>
<b>Composite — Net</b>	<b>2.15</b>	<b>6.31</b>	<b>13.60</b>	<b>2.76</b>	—	—	<b>13.36</b>
MSCI All Country World ex USA Small Cap Index	0.66	2.78	11.26	-1.45	—	—	7.61

### Annual Returns (% USD) Trailing 12 months ended 30 June

	2020	2021	2022	2023	2024
<b>Composite — Net</b>	—	—	<b>-15.35</b>	<b>12.85</b>	<b>13.60</b>

Source: Artisan Partners/MSCI. Returns for periods less than one year are not annualized. <sup>1</sup>Composite inception: 1 November 2020.

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.



### Tortured Investors Department

Our due diligence process adheres to rigor and discipline. In a deep dive, we start by looking at a company's annual reports; then we pore over whatever else it has disclosed over the years, interview its management, develop a discounted cash flow model in a spreadsheet, analyze its competitors, and talk to the company and other industry experts in the ecosystem. It's a well-orchestrated and almost mechanical process that's been honed over the years.

Investors, at least great ones, are perceived to be nothing but highly analytical. Their process supposedly leaves little room for imagination. In this regard, investors could not be any more different from poets, who are supposedly, at least in our cultural stereotype, full of imagination yet forever emotionally tormented. What could possibly be shared between the two departments? We opine that it is the power of imagination.

To become a great investor, one needs to see around the corner and through the facade. It takes imagination that goes beyond mere extrapolation from the present or taking management's words at their face value. As value investors who're obsessed with downside protection, we constantly ask ourselves, especially during goldilocks periods with rising earnings, what could possibly go wrong? We also ask what might be lurking beneath the surface regarding the past or the present that management is not sharing with us. We imagine downside narratives that could potentially sink a share price down the road. For instance, if the company is in a net cash position, can we imagine a plausible scenario where it might run into a cash crunch in the future? Or if the company just announced a major deal with great synergies anticipated, can we imagine the dissenting opinions that could split a boardroom and the resulting implications for future capital allocation?

There's a fine line, however, between informed imagination and speculation. The former is targeted and grounded in our experiences accumulated over the decades, while the latter is not. Coming up with downside narratives is only a starting point for us to probe further. We then run them by industry experts and the company's management team. We gauge their feedback, which is almost never black and white. We then assign probabilities, only in very crude terms, to each downside scenario. In contrast, as far as we know, poets never have to consider probabilities in their imaginations.

A case in point occurred in a recent management meeting in Australia. Based on the CFO's response to one of our questions, we veered off of our prepared questions. We said that we could imagine potential tension in the boardroom regarding balancing cost cuts and preserving organic growth potential, and then we asked how the board manages the two opposite camps. We weren't completely sure there was tension on the board, but the question that contained our hypothesis managed to tease out an insightful response from the CFO regarding how the board functions.

We're thankfully not emotionally tormented like some poets, but at the same time, we're not as mechanical as our described process may lead you to believe. Much more so than you might realize, we invoke the power of imagination in our due diligence process to help us see around the corner and through the company facade.

### Schrödinger's Cat

Just like the cat that is both dead and alive in the classic thought experiment, the equity markets and the economy seem to be flourishing and struggling at the same time. On the one hand, we have leading indices such as the S&P 500® Index and MSCI ACWI Index hitting all-time highs in the recent quarter. Still, the largest 10 companies in the S&P 500® Index gained 14% in Q2, while the remaining 490 index constituents fell by almost 3%.

US real GDP growth is expected to be about 2.7% in 2024, according to International Monetary Fund estimates, while many parts of the world are still struggling or just trying to emerge from soft patches. But despite this growth, the incumbent in the upcoming presidential election is struggling as higher interest rates and inflationary pressures shrink voters' disposable income. These inflationary pressures are even more evidently acute in Japan. The country that dealt with deflation for so long is now dealing with inflation pressures that are only marginally less than those of the US. On our latest trip, we noted that companies in Japan continue to face wage inflation. Some small businesses, like mom and pop restaurants, are trying to survive by shrinking portion sizes and imposing other requirements on patrons.

Exhibit 1: US vs. Japan Consumer Prices (YOY)



Source: Bloomberg. As of 30 Jun 2024.

These conditions have the potential to create sudden shocks and impact equity prices adversely, so we have been quite busy visiting companies in different parts of the world in an attempt to grow our watchlist.

## What We Bought and Sold in the Quarter

We did not have any purchases or sales in the quarter. We were as occupied as ever, however. We visited companies in Europe and Asia-Pacific. The trips were productive, and we came back with a few ideas that we're exploring further. We also attended CMDs (capital markets days) at two of our portfolio companies along the way. We happened to be one of the very few US-based investors that bothered to show up at these CMD events. Even though both were webcast live, we firmly believe nothing beats in-person interactions. We had some insightful side chats with C-suite executives, who, impressed with our long-term thinking, kindly introduced us to speak with their division-level leaders—a level of access not possible over Zoom.

## Top Contributors and Detractors

We outperformed our benchmark by approximately 175bps this quarter.

Our top two contributors in Q2 were M&C Saatchi and AlzChem.

M&C Saatchi is a UK-based advertising agency that we have commented on in past letters. As our largest position by a meaningful margin since inception, the weighting has contributed to its outsized performance in our portfolio. It reported 2023 full-year earnings early in the quarter. Even though we would not characterize the numbers as robust, they showed a clear recovery trend from the first half of Saatchi's fiscal year to the second half. More importantly, its new chairwoman, who joined in June 2023 and acted as its interim CEO after the prior CEO resigned, immediately embarked on a restructuring program to cut costs and dispose of underperforming business units. Less than a year later, the reported numbers clearly show that her actions have already borne fruit. A new permanent CEO just took the baton from the chairwoman mid-May. We're looking forward to working with him to bring the company to new heights.

AlzChem is a German specialty chemicals business based on the calcium carbide chain. Calcium carbide, unlike the oil- and gas-derived chemicals chain, uses three key feedstocks: coal, lime and electricity. It's a dominant player with approximately 80% market share in Europe. We've owned its shares since inception in May 2022. This was shortly after the Ukraine war started, which immediately led to soaring gas and electricity prices in Europe. As a result, the entire European chemicals sector, which is energy intensive, has suffered in recent years. Bucking the overall industry trend, however, AlzChem has shown remarkable resiliency and pricing power thanks to its strong market position in various niches. Its profit this year is expected to be at least 50% higher than its pre-war level in 2021. This is absolutely remarkable for a chemicals business in the hinterland of Europe and amid a war. Its share price didn't initially react to its relatively solid fundamentals, but this started to change late last year. We trimmed the position as its valuation discount narrowed significantly in the quarter.

Our bottom two detractors in Q2 were Alten and Impro Precision Industries.

Alten, headquartered in France, is one of the world's biggest outsourced R&D engineering services provider. It services a diverse range of end markets, including auto, aerospace and defense, telecom, multimedia, energy, life sciences, IT and finance. No single end market accounts for more than 20% of its revenue. For example, if Volkswagen were to approach Alten for development help on a next-generation electric vehicle platform, it would assign a team of engineers to work closely with the auto company. We've owned this name since inception. The market was not pleased with its Q1 2024 organic sales growth of only 3%. Its margin expectation for 2024 has also been brought down due to weaker-than-expected top-line growth. We believe there's no structural weakness in its business model, and its top-line growth is due to decelerate at some point after three consecutive years of strong growth. Most important of all, the company is run by an owner-operator whom we highly respect, and who's still the largest shareholder with a close to 15% stake. Its valuation has come down to nearly 9X EBITA. We used the share price weakness to add to our position.

Impro is a Chinese industrial precision components maker listed in Hong Kong. It specializes in a manufacturing method called casting. If you're familiar with Precision Castparts, which is owned by Warren Buffett's Berkshire Hathaway, then you can loosely consider Impro as the Precision Castparts of China. It ran into headwinds last year from an appreciating Mexican peso as well as initial operational teething issues in its new Mexican plant, which opened in 2022. We've visited that plant and are glad that it has stayed ahead of the curve in the near-shoring trend to service large North America-based customers. No fundamental news surfaced this quarter, as far as we can tell. It reports twice a year since it is a Hong-Kong listed company with first-half numbers to come in August. Its valuation has come down to a level where its dividend yield, at roughly 7.5%, is higher than its price-to-earnings multiple.

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## ARTISAN CANVAS

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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 International Explorer Strategy Composite's total net assets as of 30 Jun 2024: M&C Saatchi PLC 10.3%, Alten SA 4.0%, AlzChem Group AG 3.2%, Impro Precision Industries Ltd 2.4%. Securities named in the Commentary, but not listed here are not held in the portfolio as of the date of this report. Totals may not sum due to rounding.

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.

If applicable, contribution is calculated by multiplying a security's weight by its in portfolio return daily for the period and has been derived from a transaction-based methodology. Net contribution has been calculated by 1) deducting the related Composite's net return, which has been reduced by the highest model fee, from the greater of either of the portfolio's gross contribution total or the Composite's gross return, to determine a "model fee" applicable to managing the representative account's portfolio, 2) weighting that model fee based on each investment's average weight during the period; and then 3) deducting the weighted model fee from each investment's corresponding gross contribution to arrive at the net result. Return attribution identifies relevant factors that contributed to the portfolio's results, but is not exact, nor representative of actual investor returns due to several variables (e.g., security pricing, cash flows, the deduction of fees and expenses, etc.), and therefore should be examined in conjunction with performance of the portfolio or Composite during the period. Artisan will promptly provide further information on the methodology used or the performance of the account from which the individual security returns were extracted upon request.

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.

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