



Investment Process

We seek long-term investments in high-quality businesses exposed to structural growth themes that can be acquired at sensible valuations in a contrarian fashion and are led by excellent management teams.

Investing with Tailwinds

We identify structural themes at the intersection of growth and change with the objective of investing in companies having meaningful exposure to these trends. Themes can be identified from both bottom-up and top-down perspectives.

High-Quality Businesses

We seek future leaders with attractive growth characteristics that we can own for the long term. Our fundamental analysis focuses on those companies exhibiting differentiated and defensible business models, high barriers to entry, dynamic management teams, favorable positions within their industry value chains and high or improving returns on capital. In short, we look to invest in small companies that have potential to become large.

A Contrarian Approach to Valuation

We seek to invest in high-quality businesses in a contrarian fashion. Mismatches between stock price and long-term business value are created by market dislocations, temporary slowdowns in individual businesses or misperceptions in the investment community. We also examine business transformation brought about by management change or restructuring.

Manage Unique Risks of International Small- and Mid-Cap Equities

International small- and mid-cap equities are exposed to unique investment risks that require managing. We define risk as permanent loss of capital, not share price volatility. We manage this risk by having a long-term ownership focus, understanding the direct and indirect security risks for each business, constructing the portfolio on a well-diversified basis and sizing positions according to individual risk characteristics.

Team Overview

Our team is intellectually curious about the world and how it is changing. Each team member is passionate about small company investing and discovering businesses with meaningful and open-ended growth opportunities.

Portfolio Management



Rezo Kanovich
Portfolio Manager

Investment Results (% USD)

As of 30 June 2024	Average Annual Total Returns						
	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception ¹
Composite — Gross	-3.41	0.58	3.68	-4.92	6.68	—	10.30
Composite — Net	-3.66	0.08	2.64	-5.87	5.61	—	9.19
MSCI All Country World ex USA SMID Index	-0.07	2.38	10.30	-1.65	5.05	—	6.86
MSCI EAFE Small Cap Growth Index	-1.74	0.10	5.08	-6.53	3.41	—	5.79

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

	2020	2021	2022	2023	2024
Composite — Net	11.12	41.80	-29.08	14.56	2.64

Source: Artisan Partners/MSCI. Returns for periods less than one year are not annualized. ¹Composite inception: 1 January 2019.

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.



Investing Environment

Global equities posted mixed results in Q2 as inflation continued to cool across developed countries. Real economic growth remained lackluster in key Organization for Economic Co-operation and Development countries, including Germany and the UK, and concerns over a slowdown in the US have emerged. While central banks in Europe and Canada have begun monetary easing, the Federal Reserve has kept rates steady due to persistent inflation and a strong labor market, although hiring has slowed in recent months. In Asia, China's economic growth remained sluggish given the prolonged property market correction and weak consumer confidence, and the Japanese yen continued to depreciate, sinking to a 38-year low after losing more than a third of its value against the US dollar since 2021.

On the geopolitical stage, the Russia-Ukraine and Israel-Hamas wars continued, adding to market volatility. In addition, the US-China rivalry for technological supremacy intensified with the US weighing fresh measures to limit China's access to advanced semiconductor technologies, recent elections in France and the UK shifted the political pendulum in both countries, and campaign rhetoric in the US contributed to market uncertainty and led risk premia higher.

We believe the recent dislocations in capital markets, coupled with multiple macroeconomic shocks, have created opportunities for bottom-up investors. During the last few years, various market forces created potent undercurrents that have continued into the first half of 2024, including the following: 1) extraordinary volatility in interest rates and, more importantly, rate expectations; 2) meaningful changes in the value of the US dollar versus other major currencies, with the Japanese yen being a primary illustration; 3) spectacular swings in market sentiment regarding certain sectors; and 4) the business cycle's highly unusual shape created by the pandemic and the ensuing supply chain crisis's effect on consumption and inventory patterns. Combined with large geopolitical shocks, these factors have led to capital flight into large-cap US stocks based on their *perceived* safety or stability, as well as the trading of securities in baskets around a few notable hype cycles.

These forces have created a crowding of capital, where small caps have dramatically lagged large caps, international markets have lagged the US, and in our universe (ex-US small and mid caps), "value" has entered its fourth consecutive year of outperforming "growth." We do not like to label companies; rather, we prefer to focus on companies' long-term structural profitability. When market participants value a company on its current year's multiples in an environment of such dislocation, it creates an interesting dynamic for those who take the time to evaluate normalized earnings and returns.

Given the geopolitical reset and the macro narrative-driven market, our base case scenario assumes structurally higher inflation and sustained elevated interest rates. Nonetheless, we have never positioned the portfolio based on macro forecasts and try to make conservative assumptions about economic conditions. Hence, we are

not hanging our hats on rate cuts and are not positioning the portfolio for such a scenario. Instead, we are focused on increasing the resilience of our portfolio with attractively valued, high-quality companies and diversification across industries, geographies and themes.

Many high-quality foreign companies continue to trade at steep discounts to their US counterparts, despite their fundamental attractiveness. This is evident in a couple of anecdotal trends. One is the emergence of M&A activities after a few years of hiatus by both strategic and financial buyers in markets that have meaningfully fallen out of favor. For example, smaller companies in the UK have become acquisition targets due to their attractive valuations. Another trend is the increasing presence of activist investors, whose primary demand on companies is to relist on the US stock exchanges. While the merits of short-term jurisdictional arbitrage are debatable, good businesses that generate free cash flow have intrinsic value. The market has always returned to this fundamental truth over the long term, and we are confident this time is no different.

National elections, such as those in France and the UK, can create volatility in otherwise stable economies and in the stock prices of individual companies. However, we'd like to highlight that many of our portfolio companies have global relevance, are tapping some of the most attractive end markets throughout a diverse set of industries and, in many cases, have significant US dollar-based revenue. The narrative around the perceived quality of large US companies and the vulnerability of smaller foreign companies seems exaggerated. For example, in our view, UK-based companies Rotork and Smiths, both leaders in their industry niches, have comparable business models to their respective US peers, Emerson and Leidos, yet they currently trade at meaningful discounts despite their improved earnings trajectories.

Growth and change create opportunities for new winners and losers to emerge. Most of us can agree that there is no shortage of change in the world today: Global supply chains and energy maps are being redrawn; a tremendous amount of innovation is happening in technology and biotechnology; geopolitical changes seem enduring; and better price discovery is emerging after years of distortion. We are confident in the quality and value of our portfolio companies and believe that this environment presents significant opportunity for investors who are willing to conduct the necessary due diligence to uncover companies best situated to capitalize on the changing circumstance and emerge as long-term winners.

Performance Discussion

The portfolio underperformed the MSCI ACWI ex USA SMID Index in Q2. Stock selection in the information technology and industrials sectors was the largest detractor from relative returns. The portfolio's health care sector holdings were the largest contributors to relative returns, followed by consumer staples securities.

On an individual company basis, NICE, ConvaTec and UiPath were the largest detractors. NICE is a leading enterprise software company for contact centers. The company's share price continues to diverge from its business progression. Despite reporting record high cash flow and more than \$150 million in annual recurring revenue from artificial intelligence (AI)-enabled products, NICE's shares fell due to deteriorating sentiment around enterprise software spending, the announcement of an eventual CEO change at year-end and the market's concern about AI's impact on its business. During the quarter, NICE announced that CEO Barak Eilam will depart at the end of 2024. Barak has been a tremendous leader, but we take comfort in his extended transition period into 2025. We are also engaged with the board as it selects from an ample pool of internal and external candidates. On AI, two seemingly contradictory factors have weighed on NICE: the fear that AI will eliminate the contact center industry and the perceived competitive threat from Microsoft. We know the two cannot be simultaneously true. Contrary to the notion that AI will be terminal, we believe that value-added software will be a main avenue to monetizing the AI infrastructure buildout. We also know that AI algorithms need a vast amount of data and domain expertise to be reliable enough for enterprise-level automation, both of which NICE has. AI is now NICE's top growth driver, representing 8% of total cloud revenue and 24% of total new cloud bookings, and we are confident that AI will continue to augment NICE's revenues. Regarding increased competition, the demand for vertical end-to-end process automation is accelerating, and NICE's domain expertise at an enterprise level, particularly in areas of sensitive client information like banking, is best in class and provides it with significant advantages. In addition, the transition from on-premise to cloud for both the industry and NICE's customer base is less than halfway complete, giving NICE a long runway for higher recurring cloud revenues. NICE's multiyear opportunity includes enhanced products and the ability to widen its market share lead, particularly at the high end of the customer base. The business is profitable with 20% margins, over a billion dollars of cash on the balance sheet and a focus on R&D to sustain its competitive positioning. Today, NICE is trading at a mid-teens forward free cash flow multiple.

UK-based medical device maker ConvaTec continues its turnaround journey. It is leveraging its R&D engine to develop a suite of new products for the highly lucrative ostomy and continence care markets, as well as for the structurally growing markets of infusion devices for insulin pumps and wound care. Shares fell in Q2 on profit-taking following recent strong performance and concerns about potential changes to reimbursement for biologics used in advanced wound management in the US, including greater evidence of their benefits and more robust clinical trials. We believe the market's reaction is premature. The proposal is far from final and potentially affects only 2% of ConvaTec's current revenues and might require an additional 2% of sales to be used for R&D spend over the next couple of years. Regulatory pressure is also structurally enhancing barriers to entry in the wound care business and is more likely to adversely affect weaker capitalized competitors that will not be able to invest in R&D. In our view, ConvaTec is attractively valued, with high-single-digit free cash

flow yield on our forward-looking projections, and we retain our conviction given the highly recurring nature of its revenues, potential for continued innovation and progress toward its long-term target of 25% margins.

UiPath has successfully transitioned from a robotic process automation (RPA) company to a comprehensive automation platform provider, making it a strong choice for large enterprises. By using AI to analyze heaps of data, including emails, invoices and documents, UiPath has created automation streams and optimized legacy back-end systems, increasing its customers' productivity. Through conversations with a cross-section of our portfolio companies and other UiPath customers, we observed companies saving a tremendous amount of workforce hours by using UiPath's services. The technology's benefits are evident, and we believe robust platform solutions will overtake point solutions, as they provide large enterprises with process standardization and better cybersecurity across departments or subsidiaries. Shares of UiPath fell after the company reduced its revenue guidance due to the realignment of its go-to-market strategy and a CEO change—the co-founder is returning to the position to implement the strategic change. AI has not supplanted the need for UiPath's platform, and we continue to find the company, which is at the beginning of its growth curve, attractively valued with \$2 billion in net cash—almost a third of its current market cap—and a teens multiple for price to free cash flow.

Britvic, Fabrinet and Avidity Biosciences were the largest contributors. Britvic is one of Europe's largest soft drinks producers. It is the exclusive UK bottler for PepsiCo, and it manufactures and distributes soft drinks under its proprietary brands. The company has an innovative and broad portfolio, pricing power and a strong route-to-market strategy. Consolidation in distribution also continues to benefit Britvic. Additionally, the company is emerging from a period of investment to boost its manufacturing capacity, and it has carried out reformulations and innovations to its portfolio that cater to consumers' preferences for healthier beverages. Shares of Britvic rallied after the company rebuffed two takeover bids from Carlsberg. After the close of Q2, Britvic accepted a third bid that valued the company at an approximate 36% premium over its pre-takeover trading level. Since our initial underwrite over five years ago, we have doubled our investment in Britvic.

Fabrinet is a leading manufacturer of advanced optical photonics equipment for high-end connectivity within data centers. Optical components are replacing copper wires in telecommunications as the requirements for speed and energy efficiency increase. Shares gained after Fabrinet reported quarterly revenue and EPS that exceeded expectations. Fabrinet is a leading supplier for NVIDIA's chipsets and a key enabler of AI infrastructure, and it continues to move up the value chain. The company is asset-light with an intelligent contract structure embedded in the business. Pre-payments provide it with negative working capital and fund manufacturing capacity expansions. We estimate that Fabrinet is trading at a low 30s forward year free cash flow multiple with expected double-digit earnings growth.

Avidity Biosciences is a biotech company that has developed a proprietary antibody oligonucleotide conjugates (AOC) platform, combining the strength of monoclonal antibodies and small interfering RNAs (siRNAs). Its lead drug candidates are targeting rare muscular atrophy diseases such as myotonic dystrophy type 1 (DM1), Duchenne muscular dystrophy and facioscapulohumeral muscular dystrophy (FSHD). In layman's terms, this technology platform is important as it essentially enables the delivery of gene therapy to target muscle tissue locally—a previously unachievable task—allowing the company to address unmet needs in sizable markets. Historically, similar technologies that successfully targeted the liver transformed small companies into large ones, and we believe Avidity's initial success could lead to new treatment modalities for other muscular and neuromuscular diseases. Shares of Avidity gained after the company announced positive phase 1/phase 2 efficacy and safety data for its investigational therapy targeting the underlying cause of FSHD. This news followed Avidity's earlier announcement of positive data from its phase 2 DM1 study, providing further validation to the AOC research platform. The optionality of Avidity's AOC breakthrough platform is very promising, and we are enthusiastic about its long-term potential.

Perspectives

As bottom-up investors, we remain cognizant of the macro backdrop but do not let it drive our thought process. Often, the impact of macro shifts is hard to predict, especially in environments of heightened uncertainty and limited visibility, like the present.

A recent case in point is the significant flow of capital into Japanese equities. Markets in Japan rallied during the last year in response to the government's actions to stimulate investment in the country, including its promise of governance reforms. Japan's broad market advancement included many low-quality companies with low price-to-book ratios, including financial companies with little lending demand and opaque balance sheets. It is interesting to note that the local market rally occurred during a 30%-plus currency depreciation, negating much of the gain for unhedged investors. This trade has been highly popular among global macro fund managers, who sought exposure to other Asian markets as they pivoted away from China. While we do not make it a habit of commenting on the behaviors of other market participants, in our opinion the enthusiasm for Japanese equities has lacked nuance. One cannot help but question the fervor when it occurs amid significant currency depreciation and tepid GDP growth. In recent weeks, this enthusiasm has demonstrated signs of fatigue.

Our approach cannot be more different. Japan has always been a terrific source of ideas for us, and our approach to investing in Japan has remained consistent and disciplined, with an emphasis on business quality, staying power and embedded optionality. Even during the "lost decade," when many investors wrote off Japan and lost the sense of progress, we were able to find growth companies there. Its highly fragmented nature, with thousands of poorly covered

smaller companies, has always been a source of discovery for us. We have traveled to Japan frequently, for well over a decade, to meet with company management teams, industry experts and policy makers.

Currently, opportunities in Japan are emerging from several sources. First, the weak currency is enhancing the export competitiveness of best-in-class Japanese companies, providing the opportunity for continued global expansion. Second, yen depreciation combined with geopolitical pressures has created a sense of urgency in Japanese boardrooms to improve profitability and exercise latent pricing power. And finally, inflation and currency weakness are challenges to the average Japanese consumer, creating structural changes to long-established consumption patterns. These changes will likely be enduring and will create new winners and losers. Our research efforts have yielded new investments with compelling long-term prospects across consumer-oriented sectors, industrials and health care. We look to be thoughtful around forces of structural change while orienting our investments toward companies with tangible value and clear growth drivers that can win big in the new paradigm.

We look forward to updating you on how we position the portfolio to capture these opportunities and, as always, thank you for your continued trust and confidence.

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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. Growth 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.

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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 Non-U.S. Small-Mid Growth Strategy Composite's total net assets as of 30 Jun 2024: Nice Ltd 3.3%, ConvaTec Group PLC 2.9%, Rotork PLC 1.7%, Smiths Group PLC 1.4%, Avidity Biosciences Inc 1.1%, UiPath Inc 0.7%, Britvic PLC 1.4%, Fabrinet 1.7%. 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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MSCI All Country World ex USA SMID Index measures the performance of small- and mid-cap companies in developed and emerging markets excluding the US. MSCI EAFE Small Cap Growth Index measures the performance of small-cap companies in developed markets, excluding the US and Canada, with higher forecasted and historical growth rates.

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Return on Capital (ROC) is a measure of how effectively a company uses the money (borrowed or owned) invested in its operations. **Earnings per Share (EPS)** is the portion of a company's profit allocated to each outstanding share of common stock. **Free Cash Flow** is a measure of financial performance calculated as operating cash flow minus capital expenditures. **Normalized Earnings** are earnings that are adjusted for the cyclical ups and downs over a business cycle. **Price-to-Book (P/B) Ratio** is a valuation measure used to compare a stock's market value to its book value. **Price to Free Cash Flow** is a metric used to evaluate a firm's market price of a single share with its per-share price of free cash flow. Free cash flow represents the cash that a company generates after accounting for cash outflows to support operations and maintain its capital assets.

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