Artisan International Value Strategy

QUARTERLY Commentary

As of 30 September 2024

Investment Results (% USD)

As of 30 September 2024	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception[1]
			Average Annual Total Returns				
Composite — Gross	**8.26**	**15.49**	**27.80**	**12.03**	**13.84**	**9.58**	**12.01**
Composite — Net	**8.01**	**14.70**	**26.64**	**11.01**	**12.80**	**8.57**	**10.97**
MSCI EAFE Index	7.26	12.99	24.77	5.48	8.19	5.70	6.39
MSCI All Country World ex USA Index	8.06	14.21	25.35	4.13	7.58	5.21	6.64

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

	2020	2021	2022	2023	2024
Composite — Net	**-2.44**	**36.87**	**-18.16**	**32.02**	**26.64**

Source: Artisan Partners/MSCI. Returns for periods less than one year are not annualized. [1]Composite inception: 1 July 2002.

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.

The Artisan International Value Strategy increased by 8.01% (net) during the quarter while the MSCI EAFE Index increased by 7.26% (all returns in USD unless stated otherwise). Over the last 1, 3 and 5 years, the annualized returns for the Artisan International Value Strategy are 26.64%, 11.01% and 12.80% (net), respectively. Since the inception of the strategy in 2002, the average annual total return is 10.97% (net).

Investing Environment

It was a good quarter in the stock market. The MSCI World Index increased by over 6% in US dollars. As usual, we can only guess why the stock market increased. We think it was mainly driven by expectations that the US Federal Reserve will continue to lower interest rates. As borrowing costs decline, the value of future profits increases. Those expectations are supported by lower inflation data, although inflation is stubbornly running above the Fed's 2% target in the US. Another contributing factor is the labor market, which is strong but not too strong. Overall, the US economy remains healthy, which should help corporate profits grow in the aggregate.

The S&P 500® Index increased by 6% in the quarter. Outside the US, indices lagged in local currency. The MSCI Europe Index eked out under a 2% gain while the MSCI Japan Index declined by 6%. One notable exception was China where the stock market boomed—the MSCI China Index was up by 22% in renminbi as the government took measures to stimulate the economy.

The US dollar was weak during the quarter, which is, of course, important to those of us with significant assets invested outside the US. When the US dollar is strong, even if we generate positive returns, we earn less when those profits are converted to dollars. This quarter the opposite occurred. The weak US dollar turned modest stock market returns in euro, yen, the British pound, etc., into significant gains in US dollars. MSCI Europe Index returns were boosted by about 5% on average and MSCI Japan Index returns by almost 12%. It is important to note, however, that most of these currencies retraced losses generated earlier in the year. So far in 2024, currencies have had a modest impact on foreign market returns.

One currency that has appreciated significantly against the dollar is gold. Not many people use gold coins anymore, but important institutions continue to use gold as a fundamental store of value, including the US government. The United States holds 8,134 tons of gold, or about 287 million ounces. Gold started the year trading at $2,058 per ounce and as I write now trades at $2,657, up 29%. That is a solid $172 billion gain, which would finance the government for—wait for it—10 days.

"Gold is the universal language understood by all nations."
—George Herbert, seventeenth century English poet.

That quote likely captures what is happening. In a world where the holder of the reserve currency (the US) is engaged in two proxy wars, has participated in confiscating the reserves of enemy combatants and is piling up debt faster than Noah Lyles can run, trust in the institutions that control the reserve currency and other paper currencies has diminished. While money is no longer backed by gold, governments store it to protect against hyperinflation or other economic shocks. It is a belief system. All major governments stock gold as some level of paper currency backing. Switzerland was the last country to come off the gold standard, in 1999. But a few central banks, including those in Russia and China, have been accumulating gold in recent years, and Costco reports record sales of gold to American consumers. Is gold coming back as a currency? Has the United States reached the edge of acceptable behavior as the keeper of the world's reserve currency? Regardless, countries and consumers showing a preference for gold over dollars is a notable indication of trouble in the world. And the ebullient stock market is an indication of a lack of notice of trouble in the world.

Portfolio Discussion

I was recently pointing out to a fellow investor how unusual it was that I could find multiple large companies in the world that are great businesses, with strong balance sheets and value-creating management teams and that trade at cheap valuations. Usually, these conditions only exist with much smaller companies. I was referring to Samsung and Alibaba and a few other Chinese companies. At the time, I was much more bullish on Samsung as the near- to medium-term future for its products was (and remains) strong, while Alibaba faces competitive challenges and is operating in the weak Chinese economy. While both securities remain undervalued, my bullishness on Samsung over Alibaba has been proven wrong.

During the quarter, the share price of Samsung Electronics declined by 22% in Korean won, 18% in US dollars. That decline is mainly due to lower profits and an acknowledgment by the newly appointed leader of the company's semiconductor business, Young Hyun Jun, that Samsung's technological efforts had fallen behind. In the memory semiconductor market, it lags both Hynix and Micron, its two main competitors, in higher quality products. That leaves Samsung at the low end competing with heavily subsidized Chinese competition. Mr. Jun also reported that the company's efforts to build a viable competitor to Taiwan Semiconductor in the foundry business are generating significant losses. Q3 profits were well below our estimates for this point in the semiconductor cycle.

Samsung Electronics is known to be short on details and has released no specifics on how management plans to address these issues. We await a conversation with senior leadership before changing our estimate of intrinsic value. As a consolation, Samsung has the capital necessary to repair its issues, which is a key pillar of our risk management strategy. Next, we need to determine if it has the right management culture and engineering capability to implement the necessary changes.

The share price of Samsung had the largest negative impact on the portfolio during the quarter.

Now to Alibaba. The share price of Alibaba increased by 57% during the quarter. One of my favorite sayings is, "Sometimes good things happen to cheap stocks." In this case, the good thing was the Chinese government launching a stimulus program to try to stem the country's economic decline. To be clear, while we are pleased with the fundamental progress the company is making, nothing new happened during the quarter with the company's profit pool to justify a share price increase of this magnitude. I would note, as I have before, that the valuation of Alibaba is absurdly low. That remains so even after the run-up. Sentiment and geopolitical issues have been the pricing mechanism, rather than fundamentals. And this quarter sentiment changed.

The share price increase of Alibaba had the largest positive impact on the portfolio during the quarter.

Amy Sheng, our expert on China, wrote to me from Beijing: "The raft of policy measures announced are meaningful. The Politburo meeting's unusual timing and tonal shift suggest a real change in policymaking toward economic growth and actively stabilizing the property market. The Politburo meeting also officially designated tasks to ministries and local governments, which should help with execution."

We find the details provided by the head of the China Securities Regulatory Commission (CSRC), Chief Wu Qing, fascinating. As investors, over the last decade we have listened to politicians and regulators in developed markets vilify corporations and their CEOs, impose absurd taxes on share repurchases, increase regulations, deter mergers and acquisitions, and generally paint the legal structures of commerce in a bad light. Of course, encouraging commerce is the key to a prosperous future. And that is what the Chinese *communist* government is doing. We are not so myopic to ignore many of the issues associated with communism, but we find this discussion by the chief of the Regulatory Commission one of the most sensible attitudes toward commerce that we have seen from a government agency.

What follows is an excerpt from CSRC Chief Wu Qing's remarks at a recent press conference on the government's new policies:

"Listed companies are the foundation of the market. The capital market can only thrive when listed companies create value for investors and continuously provide returns. The China Securities Regulatory Commission (CSRC) actively supports listed companies in improving operational efficiency and profitability. The state-owned Assets Supervision and Administration Commission (SASAC) is also intensifying its assessment of market value management for state-owned enterprises using a 'one company, one policy' approach. Listed companies must strive to improve the transparency of information disclosure and corporate governance standards, strengthen communication with investors, and use various methods including dividends and share buybacks to reward investors. Since the beginning of this year, over 95% of listed companies have held performance briefings, 663 companies have announced interim dividends totaling 533.7 billion yuan, and more than 1,500 companies have implemented share buybacks exceeding 100 billion yuan in total.

"To improve the quality of listed companies and enhance investment value, listed companies must take on real responsibility. Currently, we have worked with relevant ministries to develop guidelines for market value management of listed companies, requiring them to manage market value in accordance with the law. First, the board of directors must prioritize investor protection and returns, laying a solid foundation for market value management by improving operational management, profitability, and core competitiveness. Second, listed companies are required to actively use market value management tools such as mergers and acquisitions, equity incentives, and major shareholder increases to enhance investment value. Third, listed companies are required to establish regular buyback mechanisms, encouraging those with the means to plan and reserve funds in advance. Fourth, long-term undervalued companies are required to formulate value enhancement plans, evaluate implementation effects, and disclose them publicly to create market constraints. Fifth, major index constituent companies are required to take responsibility by establishing market value management systems, clarifying responsibilities and response measures, and regularly disclosing implementation status. It should be emphasized that while strengthening market value management, listed companies and related parties must enhance compliance awareness and not engage in illegal activities such as market manipulation or insider trading under the guise of market value management.

"We will soon seek public opinion on the market value management guidelines. At the same time, we will work with relevant ministries to promote the establishment of market-based incentive and constraint mechanisms for share buybacks by listed companies, stimulating the internal motivation of major shareholders, executives, and other relevant parties of listed companies to further enhance their investment value."

I wonder if Gary Gensler, head of the US Securities and Exchange Commission, was listening?

Other Important Portfolio Developments

Two companies in the process of restructuring their businesses also helped the portfolio during the quarter: Philips and Unilever.

Philips is a Netherlands-based health care conglomerate, and Unilever is a consumer goods company known for products such as Dove Soap and Hellmann's Mayonnaise. Both companies reported strong Q2 earnings, reflecting management's steps to improve the structure and profitability of these businesses. The share price of Philips increased by 30% while Unilever's shares were up 18%, both in US dollars.

Pluxee is a recent spinoff from Sodexo, a France-based catering company that we've been a shareholder of since 2008. Recently, regulatory threats have been proposed in two large markets, France and Brazil. Also, interest rates have started to decline. Each of these prospects would lower the earnings power of Pluxee and its competitors. The share price declined 25% during the quarter. Pluxee is in what I call the vouchers business. Pluxee operates a financial network that connects providers of employee services, mainly for restaurants, to employers. That network allows employers to issue vouchers, electronic cards or money to employees through an app. Employees receive a tax-free benefit, the employer gets a tax deduction for providing the benefit, and the employer effectively provides purchasing power to employees without paying the associated payroll taxes. The vouchers and cards also send business to the restaurants or other benefit providers. As the provider of the network, Pluxee receives a fee both from the employer and from the participating restaurants. It is a great business not only because it is low in capital intensity but also because employers pay for the benefits up-front, creating float. That float gives the company a free form of financing that can be used to generate interest income. We believe the shares at this price are significantly undervalued.

Portfolio Changes

In October 2023, Novartis, which is a significant investment in the portfolio, spun off Sandoz. Sandoz manufactures generic pharmaceuticals. It's a very different business from developing novel or branded pharmaceuticals, which is why Novartis decided to transform Sandoz to run as an independent, publicly traded company. The stock listed on the SIX Swiss Exchange and briefly traded down to an attractive valuation. We purchased as much stock as we could during that period, but others soon recognized that the company was mispriced and started buying as well. The share price increased by 64% in US dollars in less than a year, reaching our estimate of intrinsic value. We sold the shares.

Corporate Activity

It's common for companies in the portfolio to acquire other companies. After all, we own very large companies that are strategically well positioned and financially strong, allowing them to acquire related businesses to try to create additional value. Most acquisitions are small and not worth commenting on in this report. But this quarter, news reports and announcements have been made around two potential and unusually large transactions.

Sodexo/Aramark

Sodexo is a French catering company that is listed on the stock exchange but controlled by the founding Bellon family. Sophie Bellon, the founder's daughter, is the chairwoman and CEO. Her brother and sister sit on the board of directors along with several independent directors.

Earlier, we discussed Sodexo's spinoff of Pluxee. Shortly after the spinoff, the company completed its simplification process through a complex internal transaction. Though that transaction monetized an asset the market had ignored for years, the way it was structured benefited the Bellon family to the detriment of the minority shareholders. We reduced our ownership following the transaction. The board and the family had hoped that this simplification process would lead to a higher valuation. Instead, this insider dealing has led to Sodexo trading at a significant discount to its two large competitors: Compass and Aramark. During the quarter, the share price declined by 7% in euro.

More recently, Bloomberg News reported that Sodexo approached Aramark about an acquisition. There have been no official statements from either company. Sodexo has a $12 billion market capitalization and is trading at 15X earnings. The company has little room on its balance sheet to raise capital. Aramark has a $10 billion market cap and trades at 22X earnings. Aramark's balance sheet is stretched. Simple math would lead one to conclude that if a transaction were to occur for cash, the resulting entity would be very financially weak, and the shareholders of Sodexo would suffer significant dilution. The reason for that dilution is the low valuation of Sodexo, which we believe is in part due to the bad reputation created by the family's insider dealing. Actions have consequences.

A stock merger could create value providing the family gives up voting control and cedes operating control to the Aramark management team. That would mean eliminating a significant portion of the existing Sodexo management team. This French company would also have to move its main listing to the US, where valuations are much higher. Finally, value creation would depend on eliminating administrative overlap and bundling food purchases to gain discounts from suppliers. We believe the family's unwillingness to give up voting and operating control will be the largest barrier. We assign a low probability to a deal being consummated and an even lower probability that any deal creates value for minority shareholders.

Couche-Tarde/Seven & i

The portfolio owns shares in both Alimentation Couche-Tard and Seven & i. Couche-Tarde is a well-run chain of convenience stores listed in Canada. Seven & i is a less well-run chain of convenience stores listed in Japan. Both operate in several geographies, but the big economic driver behind both companies is their stores and gas stations in the US. Couche-Tarde has 7,100 American stores, with Circle-K being its largest brand. Seven & i has more than 13,000 stores in the US and trades under the brands 7-Eleven and Speedway. Merging these two US operations would create significant synergies for fuel management and merchandise purchasing. In addition, Couche-Tarde is good at cutting corporate costs, which most Japanese companies have in abundance. Couche-Tarde has approached Seven & i with an offer, and here again we mark this effort as unlikely. While shareholders of Seven & i deserve better than the current management, foreign acquisitions of large companies have yet to become mainstream in Japan, and Seven & i's management is resisting. It has its plan to create value, though it has had plans for many years. We think Seven & i should sell to Couche-Tarde, but we do not believe it will. And neither does the market, since the arbitrage spread as of writing is about 20%.

One More Company Worth Discussing

Arch Capital is the portfolio's largest holding. The stock is up over 51% this year. The shares have become a bit of a cult stock for those investing in the insurance industry due to its superior performance. As a result, the shares trade at a more than fair valuation. Currently, insurance pricing is very strong, which should lead to great returns for Arch this year and likely the next three to five years at least as built-up reserves get released to the profit and loss statement. We thought it worthy to discuss the company given the two large hurricanes that have impacted the US—Helene and Milton. Both storms caused significant insured losses. Moody's estimates about $55 billion in total. Though Arch will incur some losses in its insurance operations, losses of this size are unlikely to be meaningful for the company's reinsurance or mortgage insurance businesses. We will get more details when Arch reports Q3 earnings, but for now we expect book value growth to slow, modestly reducing our estimate of intrinsic value.

The company announced in mid-October that CEO Marc Grandisson was stepping down. He was an incredible CEO, upping the game compared to the founding CEO, who was a strong value creator in his own right. Arch has a strong bench, and the company named Nicolas Papadopoulo, the current president and chief underwriting officer, as CEO. Arch has a unique culture that was put in place by several extraordinary executives at the firm's founding back in 2001. The bench that I am referring to is the second layer of executives below the CEO, all of whom have been with the company since its founding. We believe the culture of excellence under which this company operates will continue under Papadopoulo, allowing that cult stock-driven valuation to continue.

Thank you for your support.

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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 International Value Strategy Composite's total net assets as of 30 Sep 2024: Arch Capital Group Ltd 5.1%, Unilever PLC 4.6%, Samsung Electronics Co Ltd 4.6%, Koninklijke Philips NV 4.1%, Novartis AG 3.9%, Alibaba Group Holding Ltd 2.9%, Alimentation Couche-Tard Inc 1.6%, Seven & i Holdings Co Ltd 1.1%, Sodexo SA 0.9%, Pluxee NV 0.7%, Compass Group PLC 2.4%. 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 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. MSCI China Index captures large- and mid-cap representation across China A shares, H shares, B shares, Red chips, P chips and foreign listings (e.g., ADRs). MSCI World Index measures the performance of developed markets. The MSCI Europe Index captures large and mid-cap representation across 15 Developed Markets countries in Europe. MSCI Japan Index measures the performance of the large- and mid-cap segments of the Japanese market. S&P 500® Index measures the performance of 500 US companies focused on the large-cap sector of the 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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