



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 September 2024	Average Annual Total Returns						
	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception ¹
Composite — Gross	7.70	8.32	20.80	-2.29	8.66	—	11.25
Composite — Net	7.43	7.52	19.61	-3.27	7.57	—	10.13
MSCI All Country World ex USA SMID Index	9.32	11.92	23.01	1.63	7.25	—	8.22
MSCI EAFE Small Cap Growth Index	10.25	10.36	23.23	-3.96	5.64	—	7.33

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

	2020	2021	2022	2023	2024
Composite — Net	28.49	23.93	-32.39	11.91	19.61

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 advanced in Q3 after the Federal Reserve cut interest rates for the first time since the pandemic, following cuts by the European Central Bank and Bank of England. In the US, headline inflation continued to trend downward, though it remains above the Fed's 2% target. In addition, hiring slowed, and job openings fell. In Europe, growth remains fragile as major economies, such as Germany and the UK, continue to struggle with a deep slump in manufacturing. Asian markets continued to experience severe volatility. In early August, Japan saw the brief unwinding of the yen carry trade. Later in the quarter, Chinese stocks jumped as policymakers announced a string of stimulus measures aimed at boosting the capital markets and the real estate sector; however, much of these gains reversed as investors questioned the recovery's durability.

On the geopolitical front, tensions persist with the ongoing Russia-Ukraine and Middle East wars. In addition, economic competition between China and the West continued to intensify as major Western markets imposed hefty tariffs on select Chinese imports, including electric vehicles. Combined with the upcoming presidential election in the US, these events are adding to uncertainty and are percolating through the capital markets as well as the real economy, as companies delay investment decisions.

Given the range of dramatic geopolitical and economic events in recent years, it is not surprising that macro forces and swings in short-term sentiment have dominated investor psyche. Top-down forecasts have driven the returns of both the bond and equity markets, as investors rotated capital and traded theme-related baskets of securities. Such investor behavior tends to ignore the nuance of individual businesses—including their structural growth drivers, competitive positioning, and research & development progress—and create opportunities for those like us who are focused on bottom-up analysis.

In this environment, market participants moved capital into stocks of large- and mega-cap companies in the US based on their perceived safety at the expense of international companies, especially those of lower capitalizations. Looking at broad market proxies, for example, on a forward price-to-earnings basis, the S&P 500® Index is currently over 50% more expensive than the MSCI AC World ex USA SMID Index and over 30% more expensive than the MSCI EAFE Small Cap Growth Index—the steepest valuation discount in 20 years.

More importantly, as it relates to our investment approach and current opportunity set, the dash to US large caps has resulted in a marked divergence between the share price and economic reality of many smaller companies in our portfolio. Despite meaningfully growing their earnings, multiples have paradoxically contracted. For example, Jet2, the largest vertically integrated online tour operator in the UK, has more than doubled its revenues versus pre-pandemic levels and continues to grow at ~20%. It is a structurally stronger business today, having upgraded its fleet during COVID when

airplanes were available and cheap, added 40 landing slots in key airport locations (a critical asset in the industry) and strengthened its hotel partnerships (by far the most profitable part of the business). We are confounded that the market has ignored Jet2's significant fundamental progress and that its forward price-to-earnings multiple is half its pre-pandemic level.

The flight to the US also ignores the ability of foreign companies to generate revenues in multiple currencies and geographies, including the US. Our portfolio of smaller international companies is global in nature, and the US represents approximately 30% of our portfolio's revenues.

Over our nearly 13 years of managing this strategy, we have consistently constructed the portfolio with a bottom-up approach to stock selection while exercising price discipline. We seek to own businesses with strong pricing power, high and improving returns on capital, strong balance sheets and idiosyncratic value drivers—often pertaining to new markets, new products or management turnarounds. We also try to minimize cyclicity by focusing on businesses that can benefit from strong secular tailwinds. Our vast universe is a rich source of investment opportunities, especially for those with inexpensive embedded optionality. Patience is required, and our long-term investment horizon has enabled us to capitalize on market short-termism since our inception. Over time, one can see that good businesses with free cash flow generation have intrinsic value, and their share prices ultimately reflect underlying fundamentals.

Throughout our investment tenure, we have demonstrated valuation discipline grounded in rigorous cash flow analysis. We have always emphasized the through-cycle profitability of businesses and incorporated embedded optionality into our evaluation. We wanted to take this opportunity to elucidate the following three points:

- We make our company earnings projections on a reasonable, medium-term time frame. Our valuation analysis is never based on a single data point or the most recent set of data points. We think carefully about a company's opportunity set and perform scenario analyses over a three- to five-year period to estimate its true earnings power and normalized returns. As the COVID pandemic demonstrated, short-term factors, such as inventory and consumption cycles, can paint a highly distorted picture and cause share prices to dramatically deviate from underlying business values.
- We think of a stock as having attributes of both a bond and an option. The base case cash flows of the underlying business can be valued as the coupon of a bond, and the market opportunities as an option. We embed conservatism in our estimates, recognizing the world has many unknowns. We look for situations where a company has one or more cheap options

on large future outcomes. Idiosyncratic sources of such growth are widespread and range from management changes to turnarounds to R&D pipelines to regulatory changes. Many of our businesses come with embedded options that may dwarf the existing business. For example, when we first invested in Glaukos, it had one device, iStent®, to treat glaucoma. Today, Glaukos is a comprehensive ophthalmology enterprise with novel therapies for glaucoma, corneal disorders and retinal disease, and its ophthalmic drug delivery device, iDose® TR, has the potential to become significantly larger than its original stent business.

- We have witnessed wide fluctuations in the prices of company-specific options with shifting market sentiment around industries. We think it is important to mention that in the short term, prices often do not reflect real value. However, as the companies continue to grow and make fundamental progress, the price and value of these options eventually align.

To provide a more in-depth perspective of the embedded optionality throughout our portfolio, we will highlight Gaztransport et Technigaz (GTT) and Ambu. GTT is the unrivaled global designer of cryogenic membrane containment systems required to transport and store liquefied natural gas (LNG). GTT is highly profitable (greater than 100% ROIC) via the licensing of its technology, which creates a circumstance where the company can grow revenue with minimal additional cost. When we originally invested in the company in April 2021, there was broad confusion over how LNG fit into Europe's new "green taxonomy," and the stock traded at a low-teens, through-cycle multiple of enterprise value to free cash flow (EV/FCF) and paid a 6% dividend yield. We, however, believed that the number of LNG ships built per year, which ranged from 25 to 35, would be meaningfully insufficient to meet the increased demand in LNG that we anticipated. Ultimately, the fleet size required proved to be 80+ ships per year. We also recognized the optionality embedded in GTT's software and hydrogen businesses; however, these were not required in our model for the stock to double. We recently exited the position for two reasons. First, since GTT was trading at a low- to mid-20s through-cycle EV/FCF estimate, we concluded that the market was more than fully pricing in a long LNG peak—particularly as energy maps are being redrawn amid geopolitical tensions, such as the Russia-Ukraine war. Second, as long-term investors, we prioritize our relationships with company management teams; GTT's talented CEO, with whom we had built a rapport, announced his retirement.

Ambu, a current holding, is a pioneer in disposable endoscopes that limit infection. We've known this business since 2013, discovering it as a micro-cap focused on ambulance-oriented devices. Ambu was creating single-use endoscopes, focusing on the field of pulmonology. We initiated a position in the company believing the market opportunity was significant in an industry with high barriers to entry and requirements for scale and manufacturing efficiencies. The

market was also enthusiastic, though overly so, in our opinion. Before Ambu introduced its full suite of products, investors decided to value the company on a potential total addressable market basis. Ambu's market cap surpassed \$9 billion, and we meaningfully cut our position on valuation. The market's optimism, however, quickly faded as Ambu heavily invested in R&D to expand its product suite to serve the bigger markets of ENT (ear, nose and throat), urology and gastroenterology and invested to develop a direct go-to-market strategy in the US, which depressed margins. This coincided with a failure in its duodenoscope, and the market completely wrote off Ambu's growth, sending the market cap to \$2 billion. We then added back to our position, believing there were cheap options embedded in the business on large future outcomes. Today, Ambu has operating leverage, benefiting from the launch of multiple products and from its modular design process, and we believe its structural profitability is materially higher than current trading levels. In our opinion, Ambu's product pipeline should achieve 20% margins and grow sustainably. The real option value in Ambu has not changed despite sentiment swings.

We hope these two examples illustrate how we value individual companies and embed optionality in our portfolio. Our investment universe presents many attractive opportunities, and we remain hard at work to identify the challengers and disruptors with whom we will embark on a journey to becoming large industry leaders.

Performance Discussion

Our portfolio lagged the MSCI ACWI ex USA SMID Index in Q3. More than half of the relative drag was due to our currency exposure, which is an output of bottom-up investment decisions. Stock selection in health care and a heavier weighting in the information technology sector were additional detractors, while stock selection in industrials, financials and consumer discretionary were all sources of positive relative performance.

On an individual company basis, Wolfspeed, Madrigal Pharmaceuticals and RxSight were the largest detractors. Wolfspeed is a leader in materials science, manufacturing silicon carbide (SiC) wafers and devices for next-generation power semiconductors used to improve the range and efficiency of electric vehicles and drive industrial applications. Shares fell due to weakness in near-term EV growth in the US and concerns around the timing of the government subsidy program, which was subsequently resolved after quarter-end. Wolfspeed is an example of how wild swings in investor sentiment meaningfully affect share prices. In 2021 when Wolfspeed did not have close to the manufacturing capacity it does today, its market cap was close to \$12 billion. Now that the company is nearly finished with a major, multiyear capex cycle and by year-end will have both the world's largest SiC devices facility and largest SiC wafer manufacturing facility, the market is assigning a market cap of less than \$3 billion. We are also encouraged that utilization at its Mohawk Valley design facility is close to 20%, a key milestone. In our view, Wolfspeed's 30- to 40-year assets are massively undervalued as the market values the

company on current earnings. The company operates in a nascent area at the beginning of its S-curve. Wolfspeed remains an important player in the infrastructure of the EV industry, and its vertically integrated business model provides strong pricing power, as well as quality and supply assurance.

Madrigal develops and commercializes innovative therapeutic candidates for cardiovascular, metabolic and liver diseases. Its lead drug Rezdiffra (resmetirom) was the first FDA-approved treatment for metabolic dysfunction-associated steatohepatitis (MASH), an aggressive form of fatty liver disease. Given the worldwide epidemic of obesity, MASH has become more prevalent. In its first quarter of launch, Rezdiffra posted strong sales, and we expect physician uptake to accelerate. We believe this treatment has the potential to become a blockbuster drug and continue to have confidence in the R&D prowess and commercial execution of the company. No fundamental news drove the share price in the quarter.

RxSight is an ophthalmic medical technology company that developed and commercializes an adjustable intraocular lens (IOL) that allows a doctor to optimize a patient's vision following cataract surgery—delivering better vision outcomes than existing solutions. RxSight shares have made strong gains over the past year and have appreciated nearly threefold since our initial purchase in January 2023. During Q3, nothing fundamental drove the share price. Overall premium IOL volumes are outpacing expectations, and we believe RxSight is poised to gain meaningful market share and become the standard of care provider. We see this as a sizable, multiyear growth opportunity ahead for the company.

Kornit Digital, Daikokutenbussan and Swedish Orphan Biovitrum were the largest contributors in Q3. Kornit Digital is an intellectual property-protected leader in the digital transformation of the apparel industry that enables automation, near-shoring, eco-friendliness and working capital efficiency of textile manufacturing. Shares surged this quarter after Kornit held a successful event at the Printing United Expo in Las Vegas, where the high-end Apollo printing system saw positive momentum with the company's transition from a traditional cap-ex model to an all-inclusive click (AIC) model. AIC should reduce the barrier to adoption and allow Apollo to steadily take market share from legacy screen printing, as it gives customers the ability to lease printers and provides visibility into how much each impression will cost. AIC should also result in higher margins over time for Kornit, as it includes ink and services, gives greater visibility into the top line and has a 2-year payback period. We are encouraged by the meaningful improvement in revenue quality and believe Kornit will sustain its technological lead. This progress has also been accompanied by the announcement of an additional \$100 million in share repurchases.

Daikokutenbussan is a vertically integrated Japanese discount food retailer. Shares extended YTD gains on strong net income growth and margin expansion guidance. Inflation and yen depreciation have pressured the Japanese consumer, and Daikokutenbussan's value proposition of lower prices and high quality as well as superior

sourcing capability has resulted in store traffic growth. In addition, its high-margin private label products and efficient store operations continue to drive profitability. The company has created a winning format in Japan and continues to transform from a regional to national player in a fragmented market.

Swedish Orphan Biovitrum (SOBI) is a rare disease specialty pharmaceutical company with a highly stable portfolio of commercialized products. As a smaller company, SOBI is also in a unique position to have three upcoming drug launches, all with large potential. The first is ALTUVIIIIO, a weekly infusion for adults and children with hemophilia A; the second is recently acquired Vonjo for myelofibrosis; and the third is Aspaveli for paroxysmal nocturnal hemoglobinuria (PNH)—an acquired disorder that leads to premature death and impaired production of blood cells. At the same time, SOBI is preparing for indication expansions to treat two rare diseases: hemophagocytic lymphohistiocytosis (HLH), a life-threatening immune disease that mainly affects infants and young children, and C3G, a disease in the much larger kidney market. The new products leverage the existing commercial infrastructure and should drive accelerated profitability growth. The royalty stream from Beyfortus, a leading therapy to prevent respiratory syncytial virus (RSV) in infants, is commercialized by Sanofi in the US and further boosts SOBI's margins. In our view, SOBI remains attractively valued, trading at low teens forward-looking cash flow multiple, which is at a significant discount to its US peers.

Perspectives

As long-term investors, we pay close attention to how the world is evolving and work to identify emerging growth trends in the economy that will have relevance for the next decade. We seek to be long-standing owners in high-quality businesses with meaningful exposure to these structural tailwinds and attempt to participate in their growth at an early stage in a risk-minded manner.

The current market backdrop offers attractively priced opportunities across a diverse set of industries and geographies, and we look forward to updating you on how we position the portfolio. As always, we thank you for your continued trust and confidence.

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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 Sep 2024: Swedish Orphan Biovitrum AB 2.2%, Kornit Digital Ltd 1.2%, Madrigal Pharmaceuticals Inc 0.9%, RxSight Inc 0.8%, Daikokutenbussan Co Ltd 0.9%, Wolfspeed Inc 0.5%, Ambu A/S 2.1%, Jet2 PLC 2.1%, Glaukos Corp 1.4%. 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 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. S&P 500[®] Index measures the performance of 500 US companies focused on the large-cap sector of the market.

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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. **Forward Price-to-Earnings (P/E) Ratio** is a measure of the P/E ratio using forecasted earnings for the P/E calculation. The forecasted earnings used in the formula can either be for the next 12 months or for the next full-year fiscal period. **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. **Distribution Yield** sums the trailing four quarter's income distributions from a fund and divides by the last month's ending Net Asset Value (NAV), excluding any capital gains distributed. **Enterprise value to free cash flow** is a valuation ratio that compares a company's enterprise value (EV) to its free cash flow. **S-Curve** describes, visualizes and predicts a business' performance progressively over time. It grows slowly at first, then rapidly rises before flattening out again.

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