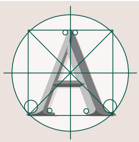


# Artisan International Value Strategy

QUARTERLY Commentary

As of 31 December 2024

## Investment Results (% USD)

| As of 31 December 2024 | QTD | YTD | 1 Yr | 3 Yr | 5 Yr | 10 Yr | Inception[1] |
|---|---|---|---|---|---|---|---|
| | | | Average Annual Total Returns | | | | |
| **Composite — Gross** | **-6.69** | **7.77** | **7.77** | **7.90** | **10.23** | **8.74** | **11.53** |
| **Composite — Net** | **-6.91** | **6.78** | **6.78** | **6.91** | **9.23** | **7.75** | **10.49** |
| MSCI EAFE Index | -8.11 | 3.82 | 3.82 | 1.64 | 4.72 | 5.19 | 5.91 |
| MSCI All Country World ex USA Index | -7.60 | 5.53 | 5.53 | 0.82 | 4.10 | 4.80 | 6.19 |

## Calendar Year Returns (% USD)

| | 2020 | 2021 | 2022 | 2023 | 2024 |
|---|---|---|---|---|---|
| **Composite — Net** | **8.75** | **17.03** | **-7.00** | **23.06** | **6.78** |

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.

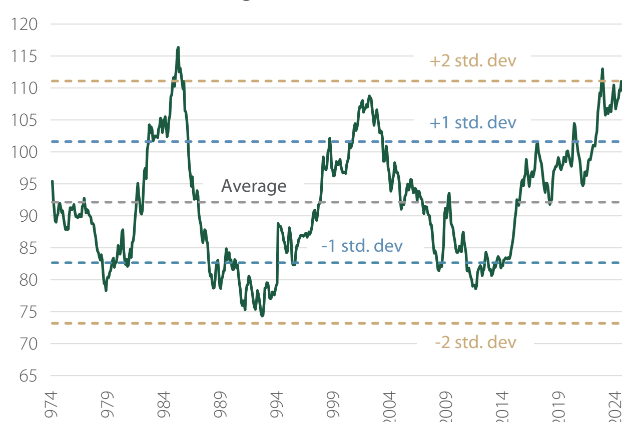
The Artisan International Value Strategy fell by 6.91% during the quarter (net) while the MSCI EAFE Index fell by 8.11% (all returns in USD unless stated otherwise). Over the last one, three and five years, the annualized returns for the Artisan International Value Strategy are 6.78%, 6.91% and 9.23% (net), respectively. Since the inception of the strategy in 2002, the average annual return is 10.49% (net).

## Investing Environment

The environment in Q4 was terrible for international investors. While US equities, as measured by the S&P 500® Index, rose 2.4%, the MSCI EAFE Index fell 8.1%. In local currencies, the MSCI EAFE Index declined by less than 1.0%. The difference is the strong dollar. The US dollar strengthened significantly relative to most currencies, regaining losses from the prior quarter and, in some cases, quite a bit more. For the year, the dollar appreciated 6.6% against the euro and by 11.5% against the Japanese yen. More notably, the Brazilian real declined 27.4% against the US dollar, the Mexican peso fell 22.7%, and the Korean won weakened by 14.2%. Needless to say (but I'm going to say it anyway), currency created a significant headwind to international investing in 2024.

In the short term, exchange rates are influenced by interest rate differentials, while fundamentals and purchasing power dictate long-term trends. Over the last two quarters, sentiment swings regarding inflation rates and future short-term interest rates caused significant volatility. Here is a look at the dollar over the long term, adjusted for inflation differentials.

**Exhibit 1:** Historical Strength of the US Dollar Since 1974




Source: Bank for International Settlements. As of 31 Dec 2024. Effective exchange rates, BIS WS_EER 1.0 (data set). The Real Broad Effective Exchange Rate (REER) is an index that measures the value of a country's currency relative to a basket of other major currencies, adjusted for inflation differentials. Data before 31 Jan 1994 is backfilled using the Real Narrow Effective Exchange Rate. December 2024 figure is estimated using the DXY Index.

The Real Broad Effective Exchange Rate, shown in Exhibit 1, highlights the dollar's move against a group of currencies. The inflation adjustment in these figures is important to understand. As an example, inflation in India (about 5.5%) compared to the US inflation rate (about 3.0%) implies an expected annual 2.5% decline in the Indian rupee's value. So the dollar would have to appreciate by more than 2.5% before an increase over the rupee would result in an upward move on the chart. Even after adjusting for inflation against a basket of currencies, the dollar is trading well above its historical average.

Fundamental research concurs with the chart. Our analysis of purchasing power parity, the Big Mac Index and other indicators of

long-term fundamental value suggests that the dollar is historically strong, especially against Asian and Latin American currencies. European currencies have certainly cheapened but on a purchasing power parity basis are not significantly undervalued. The Chinese yuan has remained stable due to the government's currency management—an important fact given the size of trading relationship between China and the United States. While we aren't in the business of forecasting the future movement of the dollar, any reversal or reversion to the mean from current trends would of course benefit the owners of foreign assets. Investing sometimes requires a big dose of delayed gratification.

## Portfolio Discussion

At the end of the year, just over 45% of invested assets were held in the following 10 businesses.

**Exhibit 2:** Top 10 Holdings

| Shares Owned | Name of Company | Market Value |
|---|---|---|
| 16,939,499 | Arch Capital | $1,564,362,733 |
| 22,224,941 | Danone SA | $1,499,173,438 |
| 26,026,439 | Unilever PLC | $1,481,852,054 |
| 27,131,817 | ABB Ltd | $1,466,980,618 |
| 39,884,414 | Samsung Electronics Co Ltd | $1,365,802,584 |
| 57,528,370 | HCL Technologies Ltd | $1,288,401,649 |
| 48,484,457 | Koninklijke Philips NV | $1,225,432,045 |
| 12,382,559 | Novartis AG | $1,210,217,600 |
| 37,654,896 | UBS Group AG | $1,150,537,454 |
| 20,924,554 | RELX PLC | $950,632,850 |
| **Total** | | **$13,203,393,024** |

Source: Artisan Partners. As of 31 Dec 2024. Based on a representative account.

The share price of **Arch Capital**, a Bermuda-based property casualty insurance company, increased 31% during the year, making it the largest positive contributor to the portfolio. The company operates across three segments—insurance, reinsurance and mortgage insurance—and is led by what we believe is one of the best management teams in the industry. Over the 20+ years of our investment, Arch has created significant value.

Initially capitalized with $1 billion in 2003, the company's book value grew to $22.3 billion by the end of Q3 2024. Notably, during that period, shares outstanding have decreased by over 35% through strategic share repurchases at advantageous prices, resulting in a 34X increase in book value per share.

In 2024, Arch experienced significant growth, with premiums increasing by over 20%, strong underwriting profitability and higher returns from its growing investment portfolio. These factors contributed to a return on equity exceeding 20%. The company generated significant excess capital and, for the first time, paid a dividend of $5 per share.

While the insurance market is expected to face challenges as pricing peaks, we anticipate Arch will continue achieving returns of 15%–20% over the next few years. Our projection is supported by an embedded book of business at attractive rates and the anticipation of higher returns from its investment portfolio. That said, with Arch's market value nearing $35 billion, we foresee more modest stock price returns going forward.

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**Danone**, a France-based food company, saw its share price increase by 12% in euros and 5% in dollars in 2024. The company operates in three segments: Essential Dairy and Plant-Based products (yogurt), Specialized Nutrition (such as baby formula and medical nutrition) and Water (primarily the Evian brand).

The branded food industry has faced several challenges over the last few years, including rising input costs, increased competition from lower priced private-label brands, the confiscation of Russian assets and reduced consumption due to the growing use of obesity drugs. At the same time, Danone has dealt with internal challenges, such as realigning and trimming its product portfolio and reinvesting cost savings into advertising and promotional support. Consequently, recent results have been modest. We forecast that 2024 revenue declined by 2% while operating profit increased by a few percent.

The 12% rise in Danone's share price reflects optimism about the company's future. We believe the categories Danone operates in—yogurt for gut health, infant and medical nutrition, and Evian as a premium health-oriented brand—are growth areas. In addition, management's recent efforts to focus product lines, reduce costs and boost advertising and promotional spending have improved the company's competitive position and economic prospects.

We expect the company to achieve annual growth of 3%–5%, with profits growing at an even faster pace over the next couple of years. At 15X our estimate of 2026 earnings, we believe the stock is undervalued.

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**Unilever** is a consumer goods conglomerate that manufactures and sells beauty, home care and food products under well-known brands like Dove, Vaseline, Pond's, Hellmann's, Knorr, and Ben & Jerry's. Historically, it has been characterized as a large, bureaucratic company prone to misdirection. Over the years, the business has undergone periodic restructuring efforts to enhance its performance.

Currently, Unilever is embarking on what we believe will be its most comprehensive transformation yet. This includes focusing on core products and geographies, reducing bureaucratic overhead, spinning off non-core assets and optimizing its supply chain. A newly aligned board and management team, comprised of individuals with strong reputations and expertise, are driving these changes. We know many of the people involved, either through first-hand experience or by reputation, and we believe they have the skillsets to deliver.

In 2024, the stock market showed confidence in these initiatives, with Unilever's share price rising 24% in British pounds and 22% in dollars. Early results indicate improved volume growth and increased profitability. Additionally, the company announced plans to spin off its ice cream business.

On the fundamental side, 2024 was hardly a banner year. Unilever faced many of the same issues as Danone, including inflationary pressures and competition from private-label brands. In addition, Unilever generates more than half of its profits from emerging markets, where weak currencies pose an added challenge. We estimate that 2024 revenue grew by only 2% (in euros) and, despite numerous challenges, operating profit grew by 12%. Price increases helped recover margins but management actions also contributed, which, in turn, created enthusiasm around the share price.

Looking ahead, we expect revenue growth of 3%–5% annually, with underlying operating profit benefiting from restructuring. By 2026, Unilever is projected to earn approximately €3.25 per share, equating to a price-to-earnings multiple of 16. We believe the company's focus on personal and home care, which constitutes a significant portion of its business, warrants a higher valuation.

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The portfolio first invested in **ABB** in 2014. At the time, one of our analysts described the company as an overly diversified conglomerate that had underperformed its peers in revenue growth, profitability and share price over the prior five years. It was poorly run, and we expected new management to fix the issues. While the problems have been resolved, it required two management teams and three CEOs to achieve the turnaround. That turnaround has resulted in a business that performed better than we had thought possible. ABB stands out as one of the most successful industrial turnarounds in Europe over the last decade. And the investment has been profitable. ABB's share price has compounded at 13% annually in dollars since we invested. In 2024, the share price increased by 34% in Swiss francs and 24% in dollars, making it the fourth-largest contributor to returns last year.

Today, ABB is a more streamlined version of its former self, with significantly improved business economics. The key driver of the stock has been the increase in operating margin, which was 10% at our initial investment. Today's operational EBITA margin is 18%. Additionally, share repurchases have reduced the number of shares outstanding by more than 19%.

ABB is now benefiting from trends in electrification, with most of its divisions experiencing secular growth over the last few years. The company has come a long way since 2014. Today, ABB focuses on the manufacture and sale of electronic components and tools used in manufacturing, construction and technology. The company has outperformed its peers in terms of profitability, cash flow generation and share price performance. At just under 20X forward earnings, it is hard to argue that ABB remains meaningfully undervalued.

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**Samsung Electronics**, one of the world's largest technology companies, was among the worst performing tech stocks in 2024. Its share price dropped 30% in Korean won and 38% in US dollars, making it by far the largest negative contributor to the portfolio's returns, reducing annual performance by around 2.2 percentage points.

We have written extensively about this business before and will do so again in this letter. Given recent challenges in the business, we have gone through a re-underwriting process. As a reminder, although Samsung is well known for cell phones and televisions, the majority of its revenue and future potential lies in its semiconductor business, where it is the global leader in memory semiconductors. For most of our over 10-year holding period, the company maintained technological, cost and scale advantages over its competitors. However, with the rise of specialized chips for artificial intelligence (AI) systems, the company has fallen behind technologically.

Our increased scrutiny of Samsung revealed the significance of the company's governance issues. Governance issues generally result in capital allocation deficiencies rather than any fundamental business impact. In this case, our examination has reduced our confidence in leadership and led us to lower our estimate of intrinsic value.

Samsung is controlled by the Lee family. JY Lee, the founder's grandson, is currently calling the shots. JY Lee has little operating experience and no official capacity at the company. He nonetheless runs the company from what is effectively his family office, relying on the advice of a "Chairman's Committee" composed of powerful, former Samsung Electronics executives. This committee also has no official or legally sanctioned role at the company. The board of directors has limited influence, in our view, serving primarily to meet the legal requirements of a publicly traded company. It is clear from recent management changes that the board has little influence over executive appointments and management compensation. These practices are highly unusual and, in this case, detrimental to the long-term development of the company. We are actively lobbying the company to change these and other idiosyncratic practices (see attached letter to JY Lee).

While the former executives currently advising Mr. Lee were responsible for the historical success of the business, that was a different era, when scale at the lowest cost was enough to drive the business. In today's AI-driven semiconductor environment, memory chips must interoperate with advanced processing chips from companies like NVIDIA, AMD, Broadcom, Amazon and Apple. Technological leadership requires deep customer understanding, product roadmap alignment and feature integration. Samsung's insular governance structure and lack of expertise in these areas hinder its ability to compete effectively. Furthermore, the lack of international technology experience among management, the board and advisory committee—few of whom speak English—

places Samsung at a distinct disadvantage compared to more outwardly focused competitors, in our view.

While we believe Samsung's engineering capabilities and work ethic will eventually enable it to catch up, we no longer expect the company to maintain a technological lead. This shift will likely impact profitability. However, we are not selling the shares at this time. The stock trades at just 1X book value and approximately 6X our lower estimate of normalized operating profit. Samsung has a strong net cash position, is buying back stock, and consistent with our recommendations, is increasing the use of equity incentives. Despite its challenges, the valuation is attractive, and the outlook for basic semiconductor demand remains promising.

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**HCL Technologies**, an India-based IT consulting firm, is the portfolio's only investment in India and has been an outstanding performer. We first purchased shares in 2016, and since then, the share price has compounded at 19% annually in dollars. In 2024, HCL's share price rose by 35% in Indian rupee and by 32% in dollars, making it the third-largest contributor to the portfolio's performance.

Back in 2016, HCL specialized in and made most of its profits in infrastructure management. At that time, historical vertically integrated equipment and service providers, such as IBM and Hewlett-Packard, were under attack by lower cost Indian IT infrastructure service providers. HCL offered low-cost alternatives, building a profitable but relatively lower quality business that traded at a low valuation multiple. This was a good, but not great, business.

Since then, CEO C Vijayakumar (CVK) has significantly transformed the company, vastly improving its technological capability to provide leading-edge digital IT and engineering services. That, plus CVK's focus on cost management, has driven substantial growth. Over the past decade, operating profit has increased by more than 150%. The market has recognized the improvement in the quality of the business, the rate of growth, the strong balance sheet and the quality of the management. We believe the share price is no longer undervalued. Based on our internal forecasts, the shares trade at about 20X 2026 earnings.

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**Koninklijke Philips**, a Netherlands-based health care conglomerate, has a market capitalization of €23 billion and approximately €7 billion of debt and other liabilities. In 2024, Philips' share price rose by 20% in euros and just over 12% in dollars, mainly driven by the resolution of legal liabilities related to a product recall, rather than underlying growth or profitability improvements.

The company operates in three main segments. One of the most visible businesses is Personal Health. This segment sells well-known consumer products such as Philips' market-leading electric shavers, Sonicare electric toothbrushes and water flossers. The other notable brand is Avent. If you have a newborn, you will recognize the company's sterile baby bottles, pacifiers and breast pumps. This is a great business, with global sales of €3.5 billion and operating margins in the high teens. In a private sale, this segment would likely be valued at just under €10 billion.

Philips has two other segments that sell medical devices and medical software. Products include CT scanners, ultrasound machines, image-guided-therapy systems, patient monitors, CPAP machines and masks, ventilators, and related software. We forecast that these products generated just under €15 billion in 2024. Philips holds strong market positions for these products, driven by its reputation for quality and innovation. However, the division has historically faced challenges in achieving consistent profitability. New management appointed over the last year is focused on improving operating margins. If it is successful in reaching peer-level mid-teen profitability, we expect Philips' share price appreciation to be significant.

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**Novartis**, the world's largest pharmaceutical company outside the United States, is estimated to deliver over 10% growth in both revenue and profit in 2024. However, its share price remained flat for the year. Novartis is a big company expected to generate close to $50 billion in revenue in 2024, entirely from the sale of pharmaceuticals. The company is also highly profitable, with an adjusted operating margin of 37.5%.

Like many large pharmaceutical companies, Novartis faces a couple of patent challenges in 2025 and 2026, which should slow the company's growth. However, we expect the company to recover by 2027, resuming a mid-single-digit growth rate. Management has a credible plan to achieve an operating margin of 40%. Novartis shares trade at 13X our forecasted 2025 earnings. If the company achieves its operating profit objective, the valuation would drop to 12X earnings. We believe these multiples are very low for a company of Novartis' caliber, which includes one of the most productive R&D platforms in the industry, an excellent management team, profitability in line with peers and a clean balance sheet.

There are many reasons for the low valuation. First, the US government appropriately takes exception to the relatively high price of drugs in the US versus other countries. The US would like to close the gap. While the industry would prefer European and other countries pay more to offset this, almost all health care spending outside the US is nationalized, and similar to the US, most countries are running massive budget deficits. There is no money. The industry is thus in a squeeze. In the US, regulation is starting to address this issue. Fortunately for Novartis, the US represents a relatively small percentage of revenue, and the company only has one drug subject to the Biden administration's Inflation Reduction Act. That act imposes a cap on revenue for major drugs sold to

Medicare. On the other hand, Novartis has a robust lineup of newly approved drugs, which should drive revenue and profitability from its US operations. Second and perhaps more meaningfully, most health care investors today are focused on the companies that sell obesity drugs—the fastest growing segment of the industry. Those companies are highly valued while most of the rest of the industry suffers discounted valuations. As value investors, we love discounts.

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**UBS Group**, the world's largest wealth management company, saw its share price increase by 9% in Swiss francs in 2024, though due to the devaluation of the Swiss franc (a rare outcome) the share price was roughly flat in dollars. We like to think about UBS as the "JP Morgan of Europe." It is one of Europe's largest banks with $1.6 trillion in assets. Similar to JP Morgan, it operates with one of the best capitalized balance sheets, has an experienced and conservative management team, and has a history of making shrewd acquisitions during crises.

In early 2023, for instance, UBS acquired its largest competitor, Credit Suisse, as it slipped into insolvency. Since then, UBS has made significant strides in reducing costs, divesting unwanted assets at favorable prices, and both retaining and growing its client base.

Despite UBS management's willingness to risk its existing business by taking on a troubled Credit Suisse (Switzerland's economy would have suffered significantly if Credit Suisse had gone bust, or Swiss politicians would have lost their jobs if the government had bailed out Credit Suisse), Swiss regulators are now debating the assessment of higher capital requirements on UBS (no good deed goes unpunished). We believe the uncertainty around the amount and timing of those capital requirements impeded growth in the company's share price in 2024. The company carries about $74 billion of capital, which we believe is more than adequate. Once the company completes the merger with Credit Suisse, we believe the company can earn about a 15% ROE on that capital, or just over $11 billion per year. While estimating a fair valuation for an inherently leveraged institution is challenging, we believe UBS' current market capitalization of $115 billion undervalues the company. For reference, JP Morgan trades at 14X earnings and 2.2X book value.

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**RELX**, a UK-based provider of professional publishing, data and exhibitions, saw its share price increase by 19% in British pounds and 17% in dollars in 2024. The company operates in four segments.

Risk Solutions is the largest segment. In this business, RELX provides data, software and analytical tools to businesses and governments. The largest end market is insurance, where the company provides risk assessment tools for insurance underwriting and claims processing. The second-largest component of Risk Solutions is Business Services. The company provides risk assessments of individuals, digital devices and transactions to help prevent fraud and financial crime. It sells similar data to governments. Finally, this segment also includes the provision of specialized industry data in aviation, tax, HR and certain commodities. Risk Solutions is an amazing business that has grown revenue and profit at 6%–8% per year over the last decade. It is highly profitable with operating margins just under 40%.

The second-largest segment is called Elsevier. Elsevier is a publishing business that acts as an editor and curator of academic studies. The company receives thousands of submissions each year (for free) and is responsible for publishing the most important studies in its journals. The company uses these resources along with other data to publish content and tools useful to researchers and health care professionals. This business grows slowly, in the low- to mid-single digits, but is also highly profitable with margins in the high 30s.

Lexis Nexis is the third-largest segment. It makes most of its money by providing the basic information and data that law firms and legal staff require to operate. This is also a great business that operates in a duopoly with West Law, grows consistently and generates attractive margins in the low 20s. Lexis Nexis in particular has benefited from recent advances in artificial intelligence.

The smallest segment is called Reed Exhibitions, which operates over 500 trade shows in multiple industries and geographies. This is the most cyclical part of the company and, for obvious reasons, performed terribly during the pandemic. In 2024, this division was very profitable, and we forecast operating margins in the low 30s.

As you can see, RELX has a fantastic collection of businesses. CEO Erik Engstrom has masterfully operated the company over our holding period. We first purchased shares when Engstrom became CEO in 2009. Shares were then around £5.00. Today, the share price is £36.29. That's a 15% return per year for 15 years. Amazing. However, we believe the party is over. With the emergence and popularity of AI, the stock price has increased significantly faster than earnings over the last couple of years. Our forecast for profits in 2026 is about £1.40 per share. Though this is a fantastic company with great management, the valuation represents a poor risk-reward.

## Perspective

We believe the portfolio owns a very high-quality group of businesses. Not only are these solid companies, but most of them have fortress balance sheets and experienced management teams. But markets and the share price of many of these companies, at least in local currency, have been strong and as we highlighted, several are now trading at fair valuations. We would like to redeploy these assets and the $5 billion in cash held by the portfolio at the end of the year. Our team, including (in alphabetical order) Paul Fagan, Ben Herrick, Ian McGonigle, Michael Minard, Charlie Page, Amy Sheng, Tyler Redd and Prithvi Reddy (Joe Vari is

retiring at the end of March), are working diligently to find securities with a better return profile. Redeployment of these assets will be slow, however, given the scale of our assets and the current optimism surrounding most securities.

At the same time, holding on to some of these more fairly valued assets is purposeful. We are aware of the risks that are so eloquently described by our mentor, Benjamin Graham:

"The risk of paying too high a price for good-quality stocks—while a real one—is not the chief hazard confronting the average buyer of securities. Observation over many years has taught us that the chief losses to investors come from the purchase of low-quality securities at times of favorable business conditions. The purchasers view the current good earnings as equivalent to 'earning power' and assume that prosperity is synonymous with safety. It is in those years that bonds and preferred stocks of inferior grade can be sold to the public at a price around par, because they carry a little higher income return or a deceptively attractive conversion privilege. It is then, also, that common stocks of obscure companies can be floated at prices far above the tangible investment, on the strength of two or three years of excellent growth.

"These securities do not offer an adequate margin of safety in any admissible sense of the term. Coverage of interest charges and preferred dividends must be tested over a number of years, including preferably a period of subnormal business such as in 1970-71. The same is ordinarily true of common-stock earnings if they are to qualify as indicators of earning power. Thus it follows that most of the fair-weather investments, acquired at fair-weather prices, are destined to suffer disturbing price declines when the horizon clouds over—and often sooner than that."—Benjamin Graham, *The Intelligent Investor*

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December 9, 2024

Lee Jae-Yong
Executive Chairman

The Board of Directors
Samsung Electronics Co. Ltd.

(Seocho-dong) 11, 74-gil Seochodaero Seocho-gu
Seoul 137-965
Korea

Dear Mr. Lee:

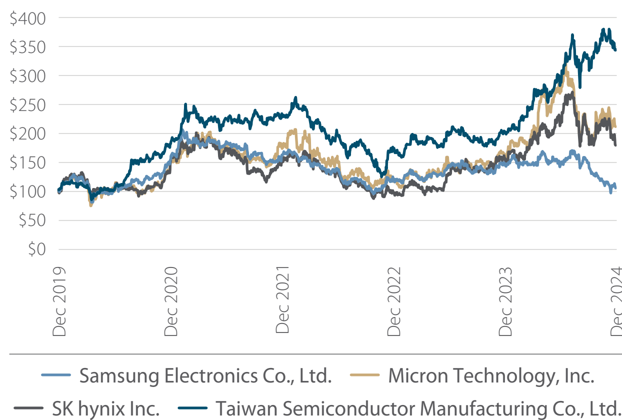
We represent the Artisan International Value and Artisan Global Value Strategies. Collectively the discretionary investment clients of these strategies currently own approximately 56 million common shares and roughly 15 million preference shares of Samsung Electronics Co. Ltd. ("Samsung," "SEC" or the "Company"). This amounts to more than USD 2.6 billion on a combined basis, or roughly 1% of SEC's total shares outstanding.

We are long-term value investors with more than 30 years of experience investing across the globe. On a combined basis, we manage more than USD 70 billion. Capital is invested in a select group of companies based on parameters including valuation, business quality and management capability. Consistent with our long-term investment strategy, we have been Samsung shareholders for more than 11 years. Over that time period we have had no contact with you, the controlling shareholder, and little contact with the Company's leadership. This is highly unusual in our investment history. As business owners, we value a dialogue with those who are setting strategy, selecting leadership, and allocating capital. We hope this letter opens a line of communication that can be helpful to you as leaders of a publicly traded company, and to us as long-term investors. We felt compelled to initiate contact at this time due to the Company's current poor operating and financial performance.

Our observations of current circumstances should come as no surprise to you and the Board of Directors. Samsung occupies a significant and privileged position within the global technology industry. It is the leading company in attractive secular growth markets. It therefore has the potential to generate industry leading growth and value creation for both its employees and its shareholders. Unfortunately, the Company's missteps during the AI product transition—perhaps the largest value creation opportunity of the past few decades—has handed the leading edge of the industry to its much smaller and recently more capable rivals.

The Company's share price performance and valuation relative to its industry peers have suffered as a result of these missteps. The Company's shares trade near book value, a clear indication that the market does not believe Samsung can effectively manage shareholder capital.

Share Price Performance (USD) Indexed to December 1, 2019




We believe that the root cause of Samsung's recent issues goes well beyond simply mishandling a product transition. Management highlights the sudden and unexpected jump in demand for AI products as the reason for the Company's lost market share at the high end of the memory market. As you know, the semi-conductor industry moves quickly, and management must be laser focused on making significant investments in the correct products at the correct time. Intel is an unfortunate example of a company that failed to understand client needs and invest appropriately. Freedom to operate and focus are characteristics that we have come to appreciate in companies such as TSMC, AMD, and Nvidia. We believe Samsung's operating and governance structures are impediments to performing in an optimal manner, and that it is time for Samsung to adopt structures similar to these successful semi-conductor companies.

History, politics, and Korean social customs have resulted in a control dynamic at Samsung that we believe is inappropriate for a global technology company. SEC should modernize its governance structure. This includes clarity with respect to your role (either serving in a managerial role as a Company executive, a supervisory role as a member of the Board of Directors, or simply as a shareholder), the elimination of cross holdings and cross influences, and a revamp of the Board structure with clearly defined Chairman and CEO roles. The current governance structure, which includes a variety of management committees and a Chairman's Office, is inappropriate for a company of this scale in this industry.

As Korea's largest and best positioned company, SEC should serve as the role model for other Korean companies. The Financial Services Commission's Value Up program offers Samsung a unique opportunity to claim this leadership role and serve as a model for optimal corporate governance and shareholder returns.

To do this, SEC's Value Up program should immediately address the following areas:

- Eliminate cross shareholdings;
- Clarify the role of the Board of Directors, the Chairman's Office, and management committees;
- Improve board member experience and diversity;
- Implement equity incentives for management;
- Reduce the balance sheet's overcapitalization through a meaningful one-time share repurchase;
- Implement an ongoing and consistent regular share repurchase program; and
- Pursue an American Depositary Receipt ("ADR") listing on the New York Stock Exchange ("NYSE").

It is unclear which governing body has oversight and control of the Company – the Board of Directors or the Chairman's Office. This structure is confusing and adds complexity to the decision-making process. Supervision of the Company, as is the case with publicly traded companies, should be centered in the Board of Directors.

The composition of the Board of Directors needs to change. The current Board is entirely comprised of Korean nationals, few of whom have global technology industry experience. In addition, there are too many operating executives on the Board. Many of SEC's competitors, on the other hand, maintain exemplary slates of directors. For example, seven out of eight directors at Micron Technology Inc. ("Micron") are independent, and all seven have executive leadership and multinational experience at large companies in the technology industry.

We recommend SEC restructure its Board of Directors. The majority of the Board should be composed of independent directors with global technology and financial leadership experience, preferably from the U.S., home to the largest pool of global technology talent and the Company's largest customer base. Operating executives should occupy no more than two board seats while the Lee family's ownership interest can reasonably be represented by an additional board seat. We fervently believe that relevant best in class industry experience at the board level will lead to better outcomes with customers, products, and markets.

Furthermore, given our mutual commitment to the Company's success, we propose that SEC normalize the Lee family relationship to that of an owner alongside its other major shareholders. The Lee family's ownership should be simplified and streamlined to allow for clarity and increased flexibility to repurchase shares.

Management and oversight committees should be eliminated in favor of appointing a qualified and empowered Board Chairman and a single Chief Executive. We know of no successful global companies run by committee.

To better align management's interests with shareholders, it is important to increase management's equity-based compensation. Micron's performance-based awards are paid in restricted share units ("RSUs"), and stock-based compensation accounts for 70% to over 90% of total executive compensation. It is not a coincidence

that Micron's share price performance and price-to-book ratio exceed that of Samsung.

We recommend the Board of Directors incorporate RSUs with a three-year vesting period in lieu of cash awards into management's long-term incentive compensation plan. With better financial performance, management will personally benefit along with the owners.

It is clear from the market's reaction following the Company's announcement to repurchase KRW 10 trillion of stock that repurchasing SEC shares at or below book value is the optimal capital allocation decision at current valuations. As a rule, share repurchases should be valuation dependent, not a default for excess cash. For example, legendary investor Warren Buffett implemented a policy to repurchase shares of Berkshire Hathaway when they traded below a targeted valuation level. SEC should adopt a similar, dynamic shareholder return policy.

At today's valuation, we recommend SEC expand its repurchase program to buy back and cancel all the preference shares outstanding for approximately KRW 40 trillion.

U.S. institutional and individual investors are collectively the largest owners of technology companies in the world and SEC's predominantly Korean listing hinders their ability to own SEC's shares, further contributing to the Company's valuation discount. We recommend SEC pursue an ADR listing to give Korea's largest listed company the valuation and global brand recognition it deserves.

SEC's technology leadership is in jeopardy. The Company is facing a pivotal moment, and we believe now is the opportune time to improve the Company's supervisory and executive structure.

Thank you for your consideration and we would welcome an opportunity to improve on our communication through direct contact.

**For more information:** Visit www.artisanpartners.com

**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. Value 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. This is a marketing communication.**

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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 31 Dec 2024: Arch Capital Group Ltd 4.6%, Danone SA 4.4%, Unilever PLC 4.3%, ABB Ltd 4.3%, Samsung Electronics Co Ltd 4.0%, HCL Technologies Ltd 3.8%, Koninklijke Philips NV 3.6%, Novartis AG 3.5%, UBS Group AG 3.4%, RELX PLC 2.8%. Securities named in the Commentary, but not listed here are not held in the portfolio as of the date of this report.

Securities referenced may not be representative of all portfolio holdings. Securities of the same issuer are aggregated to determine a holding's portfolio weight. Portfolio statistics calculations exclude outlier data and certain securities which lack applicable attributes, such as private securities. Artisan Partners may substitute information from a related security if unavailable for a particular security. This material is as of the date indicated and is subject to change without notice. Totals may not sum due to rounding.

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.

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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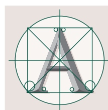
A R T I S A N  P A R T N E R S