CITYWIRE PRO BUYER

PORTFOLIO MANAGER Q&A | FEB 24, 2023

Artisan's David Samra talks cash, currency and the stock he's held for 19 years

The veteran manager of Artisan International Value discusses value investing and why he's held insurer Arch Capital for nearly two decades.

BY JOHN COUMARIANOS

David Samra has managed Artisan International Value (ARTKX) since late June 2002.

From Samra's start on the fund through January 31, the fund has delivered an annualized return of 11.48%, well ahead of the MSCI EAFE's 7.06% return in US dollar terms and landing the fund above all the 66 other Foreign Large Blend funds that have records going back that long.

Even with the survivorship bias inherent in looking at the category over the longer term (it has undoubtedly survived poorly performing funds that have closed over the past two decades), Samra has beaten his closest remaining competitor by more than 2.5 percentage points on an annualized basis.

Until October 2018, Samra had run the fund as lead portfolio manager with Daniel O'Keefe as portfolio manager, but the two parted ways when Artisan split up its international and global value teams. Former associate portfolio manager, Ian McGonigle, joined Samra as co-portfolio manager since then.

Citywire talked to Samra about his investment process and his holdings in Samsung, Arch Capital, and Danone.

Citywire: You've held healthy amounts of cash at times. Briefly explain your investment process and how it can lead to cash building up in the portfolio.

David Samra: We look for four key characteristics in a security. First and foremost, a stock must trade at a price significantly below the value of the business. This defines us as value investors, and it gives us the potential to generate excess returns as well as being the source of risk management.

The other three characteristics we look for are effectively economic insurance policies - a high-return business, a strong balance sheet and a management team with a record of building shareholder value. If we're successful, that should result in a group of undervalued companies that are generating high returns on capital and management is allocating capital from a position of financial strength to build value. Combined, these characteristics are a powerful driver of returns.

As stocks near or exceed our estimates of intrinsic value, shares are sold and proceeds are reinvested in new, undervalued securities. When stock market prices rise dramatically over short periods of time, they often do so at a pace that exceeds underlying business value growth. Also, opportunities to reinvest cash in a rapidly rising market diminish, creating a time gap between selling positions and finding adequate new ideas to reinvest. Hence, cash levels rise.

The opposite is true during periods when stock markets are in rapid decline. The spread between our estimates of intrinsic value and share prices widens, and that gap creates an opportunity to invest cash with improved risk/reward. Additionally, potential new ideas show up; falling share prices create more opportunities, not less.

CW: Currency moves were a big factor for US investors in foreign stocks last year. How do you handle currency in the portfolio?

DS: As US-based investors, we are ultimately concerned about the US dollar value of our investments.

Movements in exchange rates can have an impact on companies' dollar-denominated cash flows in two ways. The first is simply translational, where there is a match between the currency exposure of a company's revenues and costs, but a mismatch to the investor's purchasing currency. Companies operating in a single market are good examples whereby movements in exchange rates have no impact on the value of the business.

The second way currency impacts companies' cash flows is transactional, as mismatches between the currencies in which a company's revenues and costs are denominated can lead to changes in profit margins as exchange rates move. This is most often the case for export-oriented companies.

Due to the relative importance of the US economy and the reserve nature of the US dollar, many big multinationals have large dollar-based operations or inputs, which in effect act as a natural hedge. Furthermore, many companies already hedge a portion of their underlying foreign currency exposure, making hedging somewhat redundant for investors in their shares.

Hence our approach to hedging is conservative, hedging when a currency in which the portfolio has a meaningful exposure looks significantly overvalued. For example, we hedged against the Japanese yen on this basis in 2011 after the Tohoku tsunami caused a significant increase in the value of the yen relative to the dollar. We held onto that hedge through mid-2022 when the yen weakened considerably relative to the dollar.

CW: You have more technology exposure than some of your peers. Give the thesis for owning Samsung and Samsung Preferred.

DS: Samsung Electronics is a South Korean manufacturer of semiconductors, cell phones and other consumer electronics. The semiconductor industry has strong secular demand but is cyclical in nature. The industry has entered into the downward part of its cycle due to oversupply of memory semiconductors, and Samsung's earnings have been impacted. However, we believe the company is well prepared for this down cycle given its technology leadership, scale and net cash balance sheet. Unlike its competitors, Samsung retains the financial flexibility to invest in an industry that requires continuous investing, leaving the company in a better market position once the cycle turns.

While sentiment continues to drive down the share price, our research continues to validate the company's long-term secular growth opportunities, and the company's scale and technological competitive advantages remain intact. Samsung stands out as grossly undervalued at less than 5x operating profits and 1.3x book value. The value of a company with a large net cash position and uniquely capable of manufacturing geopolitically sensitive semiconductors outside of China and Taiwan should eventually be recognized by the market.

CW: You first bought shares of your top holding, Arch Capital, in late 2003, and it's delivered a 15% annualized return for the 15-yr period through January 2023. What's special about this business?

DS: Arch Capital is, we believe, one of the world's best managed property and casualty insurance companies. We have been shareholders for 19 years, and, based on today's price, the shares have compounded at 16% per year since our initial purchase in 2003. The company is on its second generation of management, who excel at capital allocation, underwriting discipline, and return generation just as well as, if not better than, the first generation of management.

Insurance is a capital-intensive business that has up and down cycles depending on the amount of capital available to underwrite or back up the promises the industry makes. Insurance is also a fragmented global business, which exacerbates the profit cycle. Hence, a management team with underwriting discipline -- taking on more premiums when rates result in high returns and willing and able to shrink premiums when insurance rates are inadequate -- is key. It is that simple.

CW: Your newest purchase among your top few holdings is Danone, which, unlike Arch, hasn't done well over the trailing 10-15-year period. What do you think will improve there?

DS: Danone is one of France's largest food companies and is famous in the US for its Dannon brand of yogurt and Evian water. In early 2021, we helped engineer a change in the company's management and a process to completely replace Danone's board of directors. We believe these changes have resulted in a revolution inside the company that will eventually lead to better growth, a more competitive market position, a stronger geographic portfolio of businesses, more operating discipline, and higher profitability.

This article represents the views of John Coumarianos of Citywire Pro Buyer and David Samra as of the date of publication and those views and opinions presented are their own. Artisan Partners is not responsible for and cannot guarantee the accuracy or completeness of any statement in the discussion. Any forecasts contained herein are for illustrative purposes only and are not to be relied upon as advice or interpreted as a recommendation. This material is provided for informational purposes without regard to your particular investment needs. This material shall not be construed as investment or tax advice on which you may rely for your investment decisions. Investors should consult their financial and tax adviser before making investments in order to determine the appropriateness of any investment product discussed herein.

Investment Results as of 31 Dec 2022 (%) Artisan International Value Fund	QTD	1YR	3YR	5YR	10YR	ITD	Expense Ratios Prospectus 30 Sep 2022
Investor Class: ARTKX	18.96	-7.00	5.61	4.25	7.44	11.05	1.25%
Advisor Class: APDKX	19.00	-6.87	5.76	4.40	7.57	11.12	1.11%
Institutional Class: APHKX	19.01	-6.90	5.86	4.50	7.69	11.24	1.02%
MSCI EAFE Index	17.34	-14.45	0.87	1.54	4.67	6.68	—
MSCI All Country World ex USA Index	14.28	-16.00	0.07	0.88	3.80	6.99	—

Morningstar Percentile Rank–Investor Class	1YR - 2	3YR - 2	5YR - 6	10YR - 3	Inception - 1
Morningstar Absolute Rank / # of Funds in Category	8/740	19/700	35/611	9/423	1/149

Source: Artisan Partners/MSCI. Returns for periods less than one year are not annualized. Class inception: Investor (23 September 2002); Advisor (1 April 2015); Institutional (1 October 2006). For the period prior to inception, each of Advisor Class and Institutional Class' performance is the Investor Class' return for that period ("Linked Performance"). Linked Performance has not been restated to reflect expenses of the Advisor or Institutional Class and each share's respective returns during that period would be different if such expenses were reflected. Morningstar rankings are based on total return, are historical, and do not represent future results. The Fund is ranked within Morningstar's Foreign Large Blend Category. The number of funds in the category may include several share classes of the same mutual fund which may have a material impact on the fund's ranking within the category.

Past performance does not guarantee and is not a reliable indicator of future results. Investment returns and principal values will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than that shown. Call 800.344.1770 for current to most recent month-end performance.

Carefully consider the Fund's investment objective, risks and charges and expenses. This and other important information is contained in the Fund's prospectus and summary prospectus, which can be obtained by calling 800.344.1770. Read carefully before investing.

Investment Risks: Current and future portfolio holdings are subject to risk. The value of portfolio securities selected by the investment team may rise or fall in response to company, market, economic, political, regulatory or other news, at times greater than the market or benchmark index. 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.

The discussion of portfolio holdings does not constitute a recommendation of any individual security. These holdings comprise the following percentages of the Artisan International Value Fund's total net assets as of 31 Dec 2022: Samsung Electronics Co Ltd 3.7%, Arch Capital Group Ltd 5.8%, Danone SA 4.6%. Securities mentioned but not listed here were not held as of the date of this report. Portfolio holdings are subject to change without notice and are not intended as recommendations of individual securities.

Return on Capital (ROC) is a measure of how effectively a company uses the money (borrowed or owned) invested in its operations. **Book Value** is the net asset value of a company, calculated by total assets minus intangible assets and liabilities. MSCI EAFE Index measures the performance of developed markets, excluding the US and Canada. MSCI All Country World ex-US Index measures the performance of developed and emerging markets, excluding the US. The index(es) are unmanaged; include net reinvested dividends; do not reflect fees or expenses; and are not available for direct investment. MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used to create indices or financial products. This report is not approved or produced by MSCI.

2/24/2023—A23596L-vR