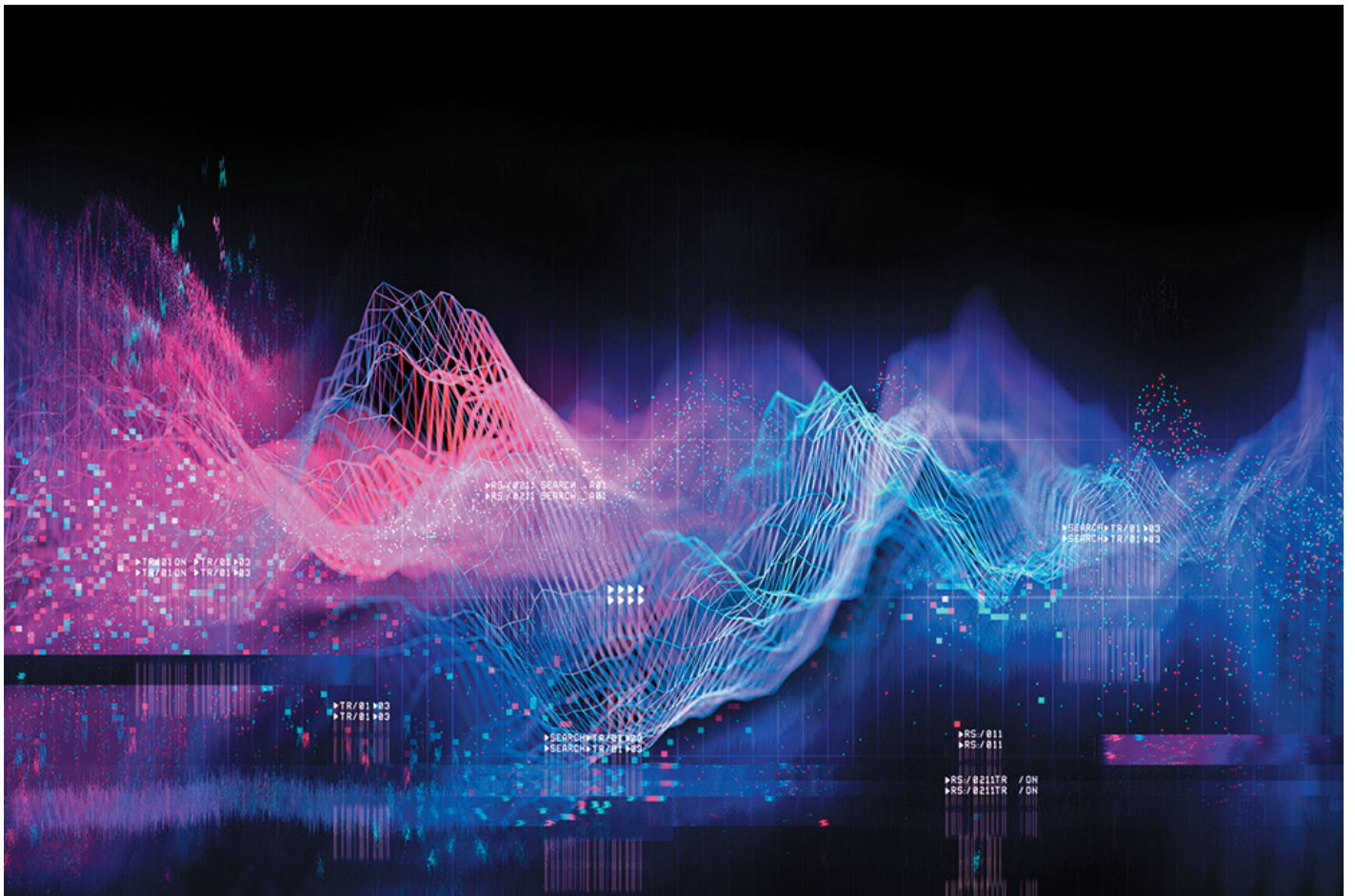


INNOVATION CONTENT SPONSORED BY ARTISAN PARTNERS

Special Report: Finding Innovation and Value Everywhere



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Beyond being just numbers, anniversaries speak to sustainable excellence and a commitment to staying focused on the goals that matter. That's especially true at Artisan Partners, which this year marks the 25th anniversary of its International Fund, and 10 years of its Global Equity Fund. The core members of the portfolio management team for the funds – Mark Yockey, Charles Hamker, and Andrew Euretig – have worked together for more than 15 years. They have compiled a remarkable track record, as you'll see in this report. The PMs are supported by a deep and experienced team of research analysts, each of whom has significant knowledge within their sectors and regions of expertise. The now time-tested investment approach blends deep company-specific research and

secular themes to identify companies that exhibit sustainable growth and are priced at reasonable valuations. In fact, a saying among the team is, “Growth at a reasonable price, not any price.”

Yockey started the ball rolling when he joined the firm 25 years ago, and II’s conversations with him highlight what you’re about to read.

1

Identifying Value, No Matter Where It Is

For investors it pays to be early, as long as you’re right. Just ask Mark Yockey, a managing director at Milwaukee-based Artisan Partners, who has been investing globally for more than three decades. In 2012 the 58-year-old portfolio manager started buying up shares of European cable companies – including U.K.-based Virgin Media, Belgium’s Telenet Group Holding and Ziggo in the Netherlands – which had been languishing as the industry struggled with discount pricing. Yockey, who grew up in a small town on the east coast of Lake Michigan, had watched U.S. cable companies profit from offering broadband Internet access bundled with television and phone service and hooking Americans on apps, games and streaming video. He was confident European cable would follow the same playbook.

“These stocks had been clobbered for the past five years – for the past ten years, really,” Yockey says with a distinctive Midwestern twang ... As it turns out, London-based Liberty Global started acquiring Yockey’s European holdings, becoming the largest international cable concern as it expanded its footprint, giving Artisan a tidy profit...

You joined Artisan Partners to launch the firm’s International Fund in 1995. Based on that it would seem you took a global view of the investment world when few others did. What appealed to you about that perspective then – and presumably still does today?

Mark Yockey: You can invest in the best companies no matter where they are in the world, and we think that’s a great thing to be able to do. Each country has certain strengths and certain weaknesses. Being global allows us to pick any company we find attractive, so the universe of companies we could potentially invest in is very large.

What are some of the key themes currently expressed in the Global Equity and International Funds?

Mark Yockey: We want to invest in value added companies that are doing things that everybody else can’t do. That means they can make a profit on whatever they’re selling, whether it’s a product or a service. The more value add you see in the company, the more you can price it accordingly. The big themes in the portfolio now for some time now have been e-commerce and technology. Another area that we find really attractive on a daily basis is healthcare. There’s a lot of new things going on in healthcare and technology that are making people’s lives better, and people are willing to pay for them.

You and your team were talking about sustainable growth before anyone had ever heard of ESG.

Mark Yockey: And it’s still a focus for us. We spend a lot of time looking for companies that make sense that will make the earth a more sustainable place to live for the 7 or 8 billion of us who occupy it. That’s a consistent theme in our portfolios. In our International Fund, we own names like Linde, the U.K. industrial gas company because they’re big in the production of hydrogen, which we think is one of the fuels that’s going to get us off of fossil fuels in the future.

How does the idea of sustainability tie into your valuation process for stocks?

Mark Yockey: The first and the most important thing we do is analyze a company’s business model to determine if the product or service that they’re selling is sustainable. We don’t want to invest in a company that’s going to have one good year, then two good quarters, and then blow up. We want to invest in companies that are going to grow for a long time and also have the potential for their valuation to go up a lot. Analyzing the business model and understanding how companies make money is one of the keys to the investment process for us. Once we analyze a company’s sustainable earnings potential and consider its valuation relative to its peers and its own history, we compare that to the price that we have to pay. So, if it’s a 7% or 8% grower, for example, we don’t want to pay more than two times the growth rate for a company like that. There are other factors involved, of course. For example, we look for companies that tend to generate a lot of cash. In other words, how much of the money can be kept by the company, as opposed to having to reinvest it in the company to keep the wheels from falling off? Those are some of the key metrics we look at, but price versus growth is the key metric we’re looking at.



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–Mark Yockey, Managing Director,
Portfolio Manager International
and Global Equity Funds,
Artisan Partners

So, what’s your outlook as we close a challenging year and head into the new one?

Mark Yockey: I’m pretty optimistic, and I think the rest of our team is, too. I hate to sound trite, but the vaccine is probably a game changer. In fact, not probably – it is a game changer. It’s going to give people confidence that the nightmare of the pandemic is going to be dealt with at some point in the next 12 months. I think that’s going to give investors a lot of confidence. At the same time, given all that’s happened, corporate profitability around the world has held up pretty well. In the U.S. and in some of the companies in Europe, profitability has remained extremely high. There are certain sectors that have been destroyed. If you’re in the travel sector your business basically evaporated, for example. But in the industrial sector in the U.S., and technology companies, healthcare companies, earnings have been enhanced, not hurt. Interest rates are extremely low and corporate profitability is going to rebound. We may be a little choppy going forward, but we’re quite optimistic.

Learn more about Artisan Partners’ [Global Equity and International Funds](#).

2 International DNA

In the years since Artisan Partners launched its International Fund, Mark Yockey has observed the evolution of an opportunity that began with the realization that because they were largely ignored, international markets had potential.

“Twenty years ago, the international markets weren’t very well followed,” Yockey says. “It was a rather inefficient market, especially compared to the U.S. We thought we could add value by finding companies outside the U.S. that weren’t as well followed and weren’t as well understood as companies are in the U.S. That has largely been proven to be the case. Even today, there are a lot of excellent companies in Asia and Europe that many investors in the U.S. are not terribly knowledgeable about. Those are the kinds of companies we look for.” To Yockey’s point, while many investors have heard of Alibaba and

Tencent, there’s a good chance they don’t know all that much about the businesses themselves beyond the headlines.

“Those are stocks that have evolved into tremendous long-term holdings,” says Yockey, noting that another reason to look beyond the U.S. is returns that are less correlated to what’s happening in the States. “That hasn’t been as relevant the past few years, but there have been significant periods in the past when the international markets have way outperformed the U.S. market. We wouldn’t be surprised if the international markets start to do better than the U.S. going forward, either. The valuations in Europe are extremely attractive, as are some of the valuations in Asia.”

Even with more information, home bias lingers among investors (which means opportunity for those who look passed it)

One of the reasons international markets weren’t very well followed even toward the end of the 1990s was because it was often difficult to get sufficient information about the companies. In addition, varying regulatory standards – or, in some cases, a lack of sufficient or enforced standards – made data gathering more of an adventure than a science. That, according to Yockey, has changed.

“It’s way different than it was 20 years ago,” he says. “The amount of information available from foreign companies has increased by a factor of 10. Management teams outside the U.S. are much more accessible than they were historically, and companies – especially in Europe – are much more focused than they used to be.”

As an example, Yockey cites Siemens, the German multinational conglomerate, which was a name his team stayed away from for a long time because it was a mishmash of too many businesses, roughly half of which would do well at a given time while the other half struggled. As a result, the stock was stuck in neutral.

“We own Siemens now because they’re down to three major businesses that we find very attractive,” says Yockey. “Siemens stock didn’t go anywhere for probably a decade, but it’s worth a lot more now because they’ve become much more focused. We have found – again, especially in Europe – there’s a trend of companies becoming much more focused. And frankly, the management teams are a lot better than they were 10 or 15 years ago.”

Despite how the changes described by Yockey work to investors’ advantage, he still sees reticence on the part of many U.S. asset owners to venture beyond known shores, bringing to mind the “Here be dragons” days of old maps and exploration.

“There are obviously some very good international investors in the U.S.,” Yockey says. “Overall, however, I think Americans remain extremely leery of investing outside the U.S. Many U.S. investors remain suspicious of anything that happens outside our borders, including in Mexico and Canada. That continues to help drive the opportunity because markets outside the U.S. tend to be a little bit less efficiently covered – and we think we can add value by investing in some of these international companies.”

Roaming that less cluttered range in search of potential leads Yockey and his team to stocks such as Deutsche Telekom, which owns a hefty chunk of T-Mobile in the U.S. “Deutsche Telekom owns roughly half of T-Mobile in the U.S.,” Yockey says. “The price of T-Mobile has doubled, and the price of Deutsche Telekom hasn’t moved. At some point, German and European investors are going to wake up and realize, ‘My God, we can own this company for two times earnings.’ Right now, German investors are worried about the company investing in its network, but it’s not a bad thing for the company to do that. It’s a good thing.”

Growth, but at a reasonable price, not any price

The business and investment worlds fixate on growth, and with good reason, but Yockey and his Global Equity team at Artisan Partners pursue growth with discipline and avoid getting swept up in the moment or following the herd. They want growth, but at a reasonable price.

“We have more or less a hard-stop on two times the growth rate,” Yockey says. “That’s mitigated by the level of cash generation and the profitability of some of companies, and how sustainable the cash flows are going forward. But we also look at what makes sense. Sometimes there is a euphoria that takes place in the investing world, and we try to be aware of that. When people are universally excited about something, we take a step back and have a reality check and discuss it in depth to make sure all the excitement is merited rather than just a lot of overly optimistic energy that’s going to disappear and take a lot of money with it.”

In 2001, for example, when the dot.com bubble burst and markets were hammered, Artisan’s equity strategies under Yockey’s eye largely avoided the carnage. That may seem like a long time ago, but it was a lesson that has stuck with him.

“There are some parts of the market in the U.S. today that seem pretty expensive at this point,” he says. “Those are areas we try to avoid. We’d rather invest in companies where we think the long-term growth rates are sustainable and the valuations are attractive. You can lose a lot of money in bear markets if you’re not careful. We’ve been doing this long enough to realize that there will be a bear market at some point in the future, and when it happens we want to own really well-run companies that sell at valuations we think make sense. That’s how we’re going to protect our investors long term.”

3

A Focus on Energy Efficiency

Among the themes and subthemes that are a focus of the Global Equity team at Artisan Partners, energy efficiency is one that has a meaningful effect on both investment portfolios and the world at large.

He asked Mark Yockey for a few examples of companies and subthemes he and his team like in the energy space.

- **Gas Turbines/Siemens Energy (Germany):** “Siemens Energy recently announced they’re getting out of coal. We thought they would, and that’s a positive thing. The stock is trading on, we think, three or four times earnings, if you look out a year or two. They compete with GE in the gas turbine business. Natural gas is a way better fossil fuel than coal or oil. We think natural gas will play a big part in cleaning up the planet over the next 20 years, especially in places like China and India.
- **Windmills/Gamesa (Spain):** “Through Siemens Energy, we are invested in Gamesa, which is one of the two leading windmill producers in the world. That business is quite strong and should remain so because it’s a non-polluting renewable source of energy. It’s not going to produce all the energy in the world, but it’s going to produce five or 10% of the energy going forward.”
- **Industrial Gas/Linde (Germany/U.S.)/Air Liquide (France):** “There are three major industrial gas stocks in the world. We own two of them. Oxygen and hydrogen are essential for many things, but the potential for using hydrogen as an energy source, especially for trucks, is outstanding. Batteries are unlikely to work in big trucks because the battery would have to be enormous, and that creates a weight issue. We think they’re going to solve the safety issues around hydrogen on trucks, and that’s going to be the solution for getting trucks off the road that are blowing diesel fumes all over the place. Linde is best in class, in our minds. They were just telling investors recently that they think their margins can go up from where they are now. That’s music to our ears, because that means that profitability going forward is probably better than what people think it will be at this point.”
- **HVAC/Midea (China)/Carrier (U.S.)/Johnson Controls (U.S./Ireland):** “One sub-theme of energy in both funds is that we think much of the world will want to upgrade their HVAC systems to significantly more energy efficient models. Somewhere near 20% of the energy consumed in the world is to make the air inside buildings hotter or colder. So, we think that’s going to be a 10-year cycle. Midea, Carrier, and Johnson Controls have long-term business models, and they’re going to help clean up the earth.”

Not energy efficiency, but...E-Commerce/Reliance (India): “We own stock in a company called Reliance in India, which historically is known as an oil refiner. But they actually have the biggest cell phone network in India, the biggest e-commerce platform in India, and they’re the biggest retailer in India. We think they’re really just getting started on all they can accomplish in India. The prices for cell phone service are extremely cheap, and the market for e-commerce in India is underdeveloped. We think over the next three or four years, Reliance could double. Facebook recently invested \$5 billion in Reliance. We think that the partnership potential for companies like Facebook and some of the other e-commerce companies in the U.S. is very significant if they partner with Reliance.”

Learn more about Artisan Partners’ [Global Equity and International Funds](#).

Disclosure

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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.

Current and future portfolio holdings are subject to risk. 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 markets. Securities of small- and medium-sized companies tend to have a shorter history of operations, be more volatile and less liquid and may have underperformed securities of large companies during some periods. Growth securities may underperform other asset types during a given period.

The holdings mentioned above comprised the following percentages each Fund's net assets as of 31 Dec 2020: Artisan Global Equity Fund—Air Liquide SA 0.3%; Alibaba Group Holdings Ltd 1.1%; Carrier Global Corp 2.2%; Johnson Controls International PLC 2.7%; Linde PLC 1.5%; Midea Group Co Ltd 1.0%; Reliance Industries Ltd 1.0%; Siemens AJ 1.0%; Siemens Energy AG 1.4%; Tencent Holdings Ltd 1.2%. Artisan International Fund—Air Liquide SA 3.6%; Alibaba Group Holdings Ltd 2.9%; Deutsche Telekom AG 2.8%; Linde PLC 4.6%; Midea Group Co Ltd 1.5%; Reliance Industries Ltd 1.2%; Siemens AG 1.9%; Siemens Energy AG 1.5%; Tencent Holdings Ltd 2.1%. Portfolio holdings are subject to change without notice. For the purpose of determining the portfolio's holdings, securities of the same issuer are aggregated to determine the weight in the portfolios. The discussion of portfolio holdings does not constitute a recommendation of any individual security.

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