



### Investment Process

We seek to invest in high-quality, undervalued companies with strong balance sheets and shareholder-oriented management teams.

### Undervaluation

Determining the intrinsic value of a business is the heart of our research process. Intrinsic value represents the amount that a buyer would pay to own a company's future cash flows. We seek to invest at a significant discount to our estimate of the intrinsic value of a business.

### Business Quality

We seek to invest in companies with histories of generating strong free cash flow, improving returns on capital and strong competitive positions in their industries.

### Financial Strength

We believe that investing in companies with strong balance sheets helps to reduce the potential for capital risk and provides company management the ability to build value when attractive opportunities are available.

### Shareholder-Oriented Management

Our research process attempts to identify management teams with a history of building value for shareholders.

### Team Overview

Our team has worked together for many years and has implemented a consistent and disciplined investment process. Our team is organized by geographic regions, but within those regions we are generalists who look across all industries. We believe this model enables our analysts to become broad thinkers and gain critical insight across all economic sectors.

### Portfolio Management



Daniel J. O'Keefe  
Portfolio Manager (Lead)  
Managing Director



Michael J. McKinnon, CFA  
Portfolio Manager  
Managing Director

### Investment Results (% USD)

As of 31 March 2024	Average Annual Total Returns						
	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception <sup>1</sup>
<b>Composite — Gross</b>	<b>7.63</b>	<b>7.63</b>	<b>25.29</b>	<b>8.60</b>	<b>11.21</b>	<b>8.94</b>	<b>9.09</b>
<b>Composite — Net</b>	<b>7.38</b>	<b>7.38</b>	<b>24.12</b>	<b>7.58</b>	<b>10.16</b>	<b>7.91</b>	<b>8.05</b>
MSCI All Country World Index	8.20	8.20	23.22	6.95	10.90	8.65	6.18
MSCI All Country World Value Index	6.85	6.85	18.01	6.66	7.63	5.97	4.15

### Annual Returns (% USD) Trailing 12 months ended 31 March

	2020	2021	2022	2023	2024
<b>Composite — Net</b>	<b>-21.48</b>	<b>65.99</b>	<b>3.49</b>	<b>-3.05</b>	<b>24.12</b>

Source: Artisan Partners/MSCI. Returns for periods less than one year are not annualized. <sup>1</sup>Composite inception: 1 July 2007.

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.



### Market Overview

Global markets notched a full year of gains in a quarter. The MSCI World Index's 10-year compound annual return is 9%; this quarter it gained 9%. Not bad considering last year's 25% gain.

Returns were broadly distributed globally. Most international markets were strong in local currency terms but less so in US dollars as the greenback continued to gain due to strong relative economic performance (more on that later). The MSCI EAFE Index, for example, rose by 10% in local currency but "only" 6% in dollars. Japan was the best performing major market, both in local currency and in dollars. In yen, the Nikkei 225 Index rose 22%, but it gained 13% in dollars. The yen is at its lowest level versus the dollar since 1990. This is not surprising. Japan is an export-oriented economy, and the government prefers a cheap yen to maintain competitiveness. The entire developed world raised interest rates, but Japan continues the negative real rate experiment with only a modest increase to a barely positive nominal interest rate. And Japan's relatively terrible economic performance of the past three decades shows no sign of ending. None of this argues for a strong currency. That said, even after currency headwinds, the Japanese stock market did better than the S&P 500® Index's 11% gain. China continued to lag notably. The second-largest economy in the world is struggling with a real estate/debt crisis, a weak post-COVID recovery and geopolitical tensions that are meaningfully reducing foreign investment. The Chinese market declined 2% in the quarter.

Investors have had quite a run post-COVID. Since the lows of March 2020, the S&P 500® Index has returned 143%, the MSCI ACWI 115% and the MSCI EAFE Index 90%. Since the end of 2019 (the last full year prior to COVID-19), the S&P 500® Index total return is 74%, the MSCI ACWI Index 52% and the MSCI EAFE Index 31%. It must be noted that inflation has been a meaningful component of these returns. Markets are priced in nominal, not real, terms, and the significant levels of inflation we have seen post-COVID are reflected in share prices. Companies have absorbed tremendous levels of inflation and have passed it on successfully for the most part. We attempted a crude decomposition analysis of post-COVID S&P 500® Index returns, into inflation, GDP and other factors. Ideally, we would have done this for the MSCI ACWI Index as it is global in nature, but it would have required too many individual country calculations given varying GDP and inflation figures. The S&P 500® Index is simpler as it is a US index, although analyzing it in this way is problematic as constituent companies are mostly global in their operations. Let us then stipulate that this analysis is crude and imperfect, but we believe still interesting.

### Exhibit 1: Decomposition Analysis of the S&P 500® Index Returns Post-Pandemic

	2019	2020	2021	2022	2023	2019–2023 Change
S&P 500® Index Returns <sup>1,2</sup>	100.0	116.3	147.5	118.8	147.6	
% Change		16.3%	26.9%	-19.4%	24.2%	47.6%
S&P 500® Index Earnings	163.6	142.9	198.5	223.8	221.5	
% Change		-12.6%	38.9%	12.7%	-1.0%	35.4%
S&P 500® Index P/E	19.7	26.3	24.0	17.2	21.5	
Chained CPI Index <sup>1</sup>	100.0	101.2	106	114.5	119.2	
% Change		1.2%	4.7%	8.0%	4.1%	19.2%
Real GDP <sup>1</sup>	100.0	97.8	103.5	105.4	108.1	
% Change		-2.20%	5.80%	1.90%	2.50%	8.1%
Nominal GDP <sup>1</sup>	100.0	99.1	109.6	119.6	127.1	
% Change		-0.9%	10.7%	9.1%	6.3%	27.1%

#### Market Return Decomposition (%), 2019–2023

Inflation	19.2
GDP Growth	8.1
Multiple/Other	+ 20.3
S&P 500® Index Return	47.6

Source: FactSet/Bloomberg/FRED. As of 31 Mar 2024. <sup>1</sup>Indexed to 100. <sup>2</sup>Percent change in price during the period. Chained CPI is a measure of consumer spending that accounts for changes in consumer preference and product substitutions due to changes in the relative prices of goods. **Past performance does not guarantee future results.**

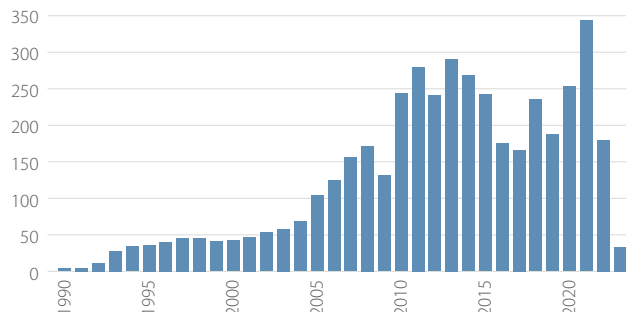
Stock market returns over any period are mostly a function of two variables: earnings growth and multiple expansion. Earnings growth can, of course, be heavily influenced by GDP and inflation. The influence of each starts at the revenue line and then flows down through the income statement and into earnings. A GDP growth business will see its revenue growth generally track with nominal GDP, and if it manages its costs and capital well, it can generate a higher rate of earnings growth. Amid meaningful inflation, if a company can pass it on via higher prices while keeping its own cost increases at or below the rate of inflation, the company's earnings growth rate will benefit. It has been our experience that companies have been mostly able to pass on recent inflation and that inflation has been an accelerant to earnings growth. How much inflation, GDP and company-specific factors contributed precisely is, of course, outside the scope of our simple analysis. But it seems clear to us inflation was a meaningful contributor to earnings and, therefore, stock market return over the post-COVID period. Inflation rose 19% during the period. Is 19 percentage points out of the S&P 500® Index's cumulative 48% return a reasonable proxy for the impact of inflation on returns? It could be more or less, depending on to what degree companies held their costs at, below or above the rate of inflation, but it is certainly a fair starting point for debate. We can certainly say that some meaningful part of the return was simply the preservation of purchasing power amid an orgy of money printing and fiscal stimulus, and therefore, real returns were meaningfully lower than nominal returns. It is also a good lesson on how equities may serve as a hedge for investors in protecting against the inflation thief.

We should reflect further on GDP growth. The above analysis is based on US economic data and the S&P 500® Index. Were we to do the

same analysis for any other country, its GDP component would look much worse and so would its stock market returns to the extent they reflected local economic conditions rather than global ones. Since 2019, US economic performance has left the rest of the world in the dust. Since 2019, Japan's real GDP has grown 1%, the UK 2% and the euro zone 3%. From what we see on the ground, the gap between the US and the rest of the world is only widening. GDP growth in the euro zone and the UK was essentially flat in 2023. Germany went backward. The US grew 2.5%.

The US is by far the world's economic powerhouse for many reasons, most importantly its relatively free and capitalistic nature. Energy independence and population growth also play a large role. We also see evidence of meaningful disinvestment from other countries into the US. German companies, for example, announced a record \$15.7 billion of capital commitments in US projects in 2023, up from \$8.2 billion the prior year. This reflects Germany's difficult investment conditions, in no small part, in our opinion, to the country's self-destructive and highly inflationary energy policies forcing a kind of de-industrialization. It also reflects worsening conditions in China, Germany's largest trading partner. Notably, foreign direct investment in China has collapsed to levels not seen since before China's 2001 ascension to the World Trade Organization.

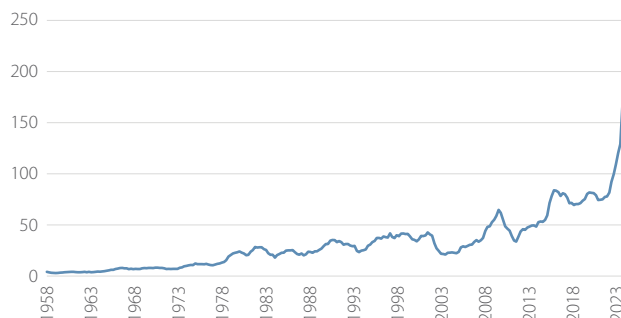
**Exhibit 2:** Foreign Direct Investment in China, Net Inflows (\$bn, Current USD)



Source: The World Bank/International Monetary Fund/United Nations Conference on Trade and Development/Nikkei Asia. As of 31 Mar 2024.

The US is now the clear frontrunner for investors. Witness 2023 private investment in US manufacturing reaching a level that was multiples of prior peaks.

**Exhibit 3:** US Private Investment in Manufacturing (\$bn)



Source: FRED (fred.stlouisfed.org). As of 30 Sep 2023.

Given the strength of the US economy, the focus on interest rate cuts within the investment and business communities is perplexing. Inflation has moderated—albeit to levels much higher than the past decade—and the economy is humming. Why do rates need to come down with the economy so strong? In weaker economies such as Europe and the UK, on the other hand, it makes sense that interest rates should fall; their economies are anemic, inflation has cooled and stimulus is arguably needed. And with weak European economies and likely steep interest rate cuts relative to the US, we don't see the dollar weakening any time soon.

One question does jump out at us. Why haven't the aggressive and sizable interest rate increases slowed the US economy? All else being equal they should, especially given the leveraged nature of the US economy.

It's our view that the current restriction from higher rates is more than offset by the stimulative boost from government spending. The fiscal deficit in 2023 was \$1.7 trillion, or 6.3% of GDP. How does that compare to the economic drag on the economy from higher rates? The US has around \$40 trillion of private debt. Rates are up roughly 500bps since March 2022. While the transmission of higher rates on marginal (i.e., new) borrowing is immediate, it takes time to flow through to the stock of debt. Outstanding car loans and fixed-rate mortgages are not impacted by higher rates, for example. Let us assume for the sake of argument that half of the 500bps of hikes has worked its way through the economy. This is probably conservative given the weight of mortgages in the overall level of household debt (almost 70%) and the percentage of mortgages on a fixed rate (also around 70%). At any rate (no pun intended), if 250bps has worked into the economy, the fiscal drag from higher rates on household finances would be about \$1 trillion. That's about a 3% drag on GDP compared to the 6% boost from the deficit. Moreover, as wages and profits have grown while debt service has not, some consumers and companies have improved their spending power overall. Of course, the longer rates stay at current levels, the larger the percentage of outstanding debt that will reprice.

There is no free lunch, however. The government spending that is powering the economic engine here cannot continue without great

risk. The US national debt is already at troubling levels of 122% of GDP. Each year at current spending levels adds a couple or a few percentage points, depending on how quickly the economy grows. Said another way, the deficit is adding to our debt-to-GDP ratio faster than economic growth can lower it. This is not sustainable. Interest costs to service the national debt already exceed Department of Defense outlays. And there are currently no viable pathways toward restoring fiscal balance given the divided and confrontational state of the US electorate. The fiscal situation is the single greatest threat to US economic dominance in the medium and long term.

### Portfolio Discussion

Our top-performing stocks in the quarter were Meta, Heidelberg Materials and Progressive Insurance.

Meta rose 37% during the quarter. This is on top of last year's 194% share price increase. The share price is now over 5X higher from where it bottomed in November 2022 and is now trading near an all-time high. It's worth noting that Meta is one of the largest and most closely watched companies in the world, so this magnitude of price movement should serve as a good reminder about how inefficient markets can be. The strong share price is a reflection of both its strong current business performance and optimism about the potential future benefits from artificial intelligence on its business. Its Q4 results were excellent, with healthy user engagement and good revenue growth and cost control. The shares are now fairly valued, and we continued to trim our holdings during the quarter.

Heidelberg Materials (HEI) share price rose 23% in dollars. This is after a 63% return in 2023. HEI's valuation has moved from absurdly cheap to now merely cheap. A few factors explain it. Cement is a CO<sub>2</sub>-intensive business, and in Europe, that means many investors simply won't touch it regardless of how necessary cement is for civilized society and the lack of viable alternatives—unless we are going to live in mud huts. Another drag on the valuation has been the fear that the EU's CO<sub>2</sub> tax system will impair HEI's economics. We have never believed this. HEI has been reducing its CO<sub>2</sub> intensity for several years and is much more efficient than many of the smaller, sub-scale cement manufacturers in Europe. HEI is also the leader in low-CO<sub>2</sub> cement produced either with recycled materials or with emissions reduction technology such as carbon capture. Therefore, CO<sub>2</sub> taxes as a percent of its overall costs will be lower than many of its peers. Everyone will have to raise prices to pass on the CO<sub>2</sub> taxes, and the marginal price of cement will be set by high-cost peers. This is positive for Heidelberg. We note that Heidelberg and the rest of the industry passed on the skyrocketing energy inflation in Europe while protecting their margins very successfully. We believe the fears over HEI's pricing power and therefore its ability to adapt to the CO<sub>2</sub> tax system have waned somewhat, helping the valuation. We also believe that many investors are starting to understand that HEI will benefit meaningfully from low carbon cement. That said, HEI remains undervalued on any meaningful economic measure. It currently trades for about 9X earnings. Similar US-listed businesses trade up to

double that level, reflecting their strong margins and long-duration cash flows. And private market transactions are similarly much higher.

Progressive Insurance shares rose 30% during the quarter. After a difficult start to 2023, the company quickly adapted and finished the year with impressive growth in premiums and underwriting profits. In Q4 2023, it managed to grow its customer base even as it raised rates and improved its underwriting ratios—a trifecta that isn't often seen in the insurance industry. This performance has continued, which should set the stage for another year of good results in 2024. Perhaps most importantly, it has been able to navigate the environment far better than its peers, many of whom are still reporting sub-par underwriting performance. Progressive has consistently gained market share in the personal auto market over our ownership period and now commands close to 15% of the total market. Its shares are no longer a bargain, but we continue to hold them due to the high quality of this business and the advantaged nature of its low-cost insurance franchise.

Our three worst performing stocks were Philips, Reckitt Benckiser and UBS.

Philips reported mediocre Q4 and full-year results. Investors' largest concern seems to be the three consecutive quarters of order intake declines. We are more sanguine on this issue. Order intake had been elevated for several quarters due to COVID-related supply chain shortages and is now merely normalizing, rather than reflecting any structural or competitive weaknesses. Full-year revenues and profits were in line with expectations overall, but Q4 was flattish. The shares declined 14%, though we note that they had been extremely strong prior to this quarter. Investors hoped for more. We believe management is on track and the business is moving in the right direction. The stock remains undervalued based on the quality of the company's assets and margin potential.

Reckitt Benckiser shares declined 18% during the quarter. Fourth quarter earnings weren't great. The business is still normalizing from pandemic-related distortions to the cold-and-flu season, but the underlying business and outlook remain strong. Its core health and hygiene businesses are poised to grow mid-single digits in 2024.

The more important factor weighing on the shares is the loss of a court case related to Reckitt's Enfamil preterm infant formula. In mid-March, a jury in Illinois awarded \$60 million to a family that sadly lost its preterm baby. The family sued Reckitt's Mead Johnson subsidiary for inadequately warning consumers of the potential risks that come with feeding specialized nutrition products to preterm babies. The specific products in question are for extremely premature babies. The products are administered while babies are in the neonatal intensive care units by medical professionals who fully understand the risks. Hospital policies generally prioritize the use of breast milk when possible but also use supplemental nutrition products when breast milk is not available. Without these supplemental nutrition products, the mortality rate for preterm infants would be higher.

Based on our current understanding of the case, the facts and circumstances do not support the jury's conclusion. Further, the award is excessive and is likely to be significantly reduced. Unfortunately, the US tort system is impossible to handicap. It can be capricious and doesn't always adhere to common sense. A cottage industry of lawyers will aggressively seek out more potential claimants, and the number of lawsuits will almost certainly grow. These things can get worse before they get better and will certainly take years to resolve. It is also worth pointing out that litigation risk in general in the US continues to grow. Private pools of capital now exist to finance large-scale tort litigation. With the Internet and mass communication, it is much easier to find large pools of plaintiffs and potential plaintiffs, and juries are increasingly willing to award previously unheard-of sums. The drag on business and the economy from litigation is meaningful, approaching 2% of GDP.

Reckitt remains a very high-quality franchise with strong consumer brands able to grow and improve profits. It is now trading at a 12X–13X earnings—a very compelling valuation for such an asset. If it were just the weak quarterly results, we would be adding to our position. Of course, if the sole issue were just weakish results, the shares would not be at this valuation. Depending on the eventual outcome of the litigation, a large part of the share price decline may be entirely justified. We reduced our position size during the quarter due to this litigation uncertainty.

UBS Group also detracted from performance. The shares performed well in local currency but were weaker in US dollars. We see no fundamental issue with business performance. The financial performance is messy, but the integration of Credit Suisse appears to be progressing largely as planned. The client base has stabilized, and UBS is making progress in exiting non-core assets. Over the next three years, it plans to address the cost structure and expects the combined business to exit 2026 at a mid-teens ROE. Importantly, the company is now returning capital to shareholders, with a plan to increase the dividend and restart share buybacks in 2024. UBS shares are up almost 50% over the past year and already reflect many of the benefits that will be realized over the next several years. It's important to recognize that these benefits will come in a bumpy, non-linear fashion. So while we continue to hold the shares, we trimmed our position during the quarter.

During the quarter we added Henry Schein to the portfolio.

Henry Schein is the world's largest distributor of dental supplies, equipment and related services. It is also the second-largest distributor of medical supplies to physicians and alternative care sites. The dental industry is attractive given favorable demographics, rising awareness of the importance of oral health in developing markets and increased adoption of new technology. The customer base remains fragmented, with ~200,000 dentists in the US.

Henry Schein is more than just a distributor of other people's products. It has expanded its core distribution business to become an

essential partner for its customers. It's the largest provider of practice-management software, used by 40% of all US dentists. It provides value-added services to dentists for repairs, equipment maintenance, insurance reimbursement and financial services. Perhaps most importantly, it has vertically integrated into manufacturing and is now making some of its own dental products. This includes private label but also extends to branded dental products in key growth areas like implants and endodontics. These products and services have better growth rates and meaningfully higher margins than its core business. As its own products take share in the mix, we should see a nice tailwind to profit growth.

The company's financial performance is currently distorted by the lingering impacts of the pandemic. During the pandemic, there was significant demand for protective equipment like latex gloves and COVID test kits, which boosted its revenues and profits. Those excesses are now normalizing, putting pressure on its reported profit growth and share price. In addition, it was the target of a cyberattack last year, which has further distorted the company's financial performance. Beneath the surface, we see a healthy business with good underlying growth and a favorable outlook. We are happy to look through this temporary period of slower growth and estimate we are paying 12X-13X earnings for a high-quality franchise with high single-digit underlying profit growth.

We exited our investments in Dentsply Sirona and Swatch Group during the quarter.

Dentsply Sirona is one of the world's largest dental products and equipment manufacturers. It is both a key customer of and competitor to Henry Schein. Both companies benefit from an attractive industry, but we believe Henry Schein is in a better strategic position due to its unique business model combining scaled distribution, specialty manufacturing and software. While Dentsply's business also has many positive attributes, the company has been through four CEOs in eight years, and it is still moving its way through a relatively complicated turnaround effort. By swapping our investment from Dentsply into Henry Schein, we believe we have improved the quality of the portfolio while still maintaining our investment upside.

We also exited our tiny investment in Swatch Group. This is a well-capitalized company with valuable luxury brands—including watchmaker Omega and high-end jewelry brand Harry Winston. The shares trade at 6X-7X EBIT and 11X earnings, which is an exceptionally cheap valuation relative to the high quality of the brands. The primary issue is the management and corporate governance structure. The business is controlled by a CEO who is hostile to the investment community and has severely limited the company's disclosures and communications. In the second half of 2023, the business fundamentals started to deteriorate. We knew what we were getting into with this company's management and governance. At that time, we felt that the valuation was just too depressed given what was likely to be a strong post-COVID recovery. Valuation just wasn't enough in this case.

## Conclusion

Markets have moved up quickly to start the year. Valuations in the better performing parts of the market such as technology and many things AI related appear stretched to us. There is no need for interest rates to come down from current levels. We believe it would stoke the inflation fire again given the irresponsible levels of deficit spending. A market driven by earnings growth is a far healthier market and economy than one driven by interest rate cuts. From what we see, earnings are generally strong. We do worry about the lagging economic performance between the United States and just about every other country. The world economy cannot stand on solid ground when more than half of it is slowly melting.

We appreciate your support and will continue to work hard to manage risk and earn attractive returns on your capital alongside our own.

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Unless otherwise indicated, the Artisan Strategy characteristics relate to that of an investment composite or a representative account managed within a composite. It is intended to provide a general illustration of the investment strategy and considerations used by Artisan Partners in managing that strategy. Individual accounts may differ, at times significantly, from the reference data shown due to varying account restrictions, fees and expenses, and since-inception time periods, among others. Where applicable, this information is supplemental to, and not to be construed with, a current or prospective client's investment account information. References to individual security performance relate to a representative account in the composite. Individual holding periods may differ.

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 Global Value Strategy Composite's total net assets as of 31 Mar 2024: Heidelberg Materials AG 4.9%, Meta Platforms Inc 4.0%, The Progressive Corp 3.6%, UBS Group AG 2.6%, Koninklijke Philips NV 2.4%, Henry Schein Inc 1.6%, Reckitt Benckiser Group PLC 1.5%. 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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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.

MSCI All Country World Index measures the performance of developed and emerging markets. MSCI All Country World Value Index measures the performance of companies across developed and emerging markets that exhibit value style characteristics according to MSCI. MSCI EAFE Index measures the performance of developed markets, excluding the US and Canada. S&P 500<sup>®</sup> Index measures the performance of 500 US companies focused on the large-cap sector of the market. MSCI World Index measures the performance of developed markets. Nikkei Index is a price-weighted index composed of Japan's top 225 blue-chip companies traded on the Tokyo Stock Exchange. The index(es) are unmanaged; include net reinvested dividends; do not reflect fees or expenses; and are not available for direct investment.

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**Price-to-Earnings (P/E)** is a valuation ratio of a company's current share price compared to its per-share earnings. **Earnings Before Interest & Tax (EBIT)** is an indicator of a company's profitability, calculated as revenue minus expenses, excluding tax and interest. **Return on Equity (ROE)** is a profitability ratio that measures the amount of net income returned as a percentage of shareholders' equity.

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