Artisan Partners Global Equity Team

Resiliency Through the Cycle

Resilient Growth

Issue 2—November 2022

Finding companies with growing fundamentals might seem like an increasingly difficult task in today's investment environment, one that features high inflation, rising interest rates and mostly lower earnings and forward guidance as many businesses contend with slowing demand and a downshifting economy.

Portfolio Manager Mark Yockey's investment approach has always been based on identifying companies that can produce consistently strong, organic growth—even in late-cycle bear markets. These businesses often have structural advantages that enable them to overcome short-term economic headwinds and outperform over longer time periods. Helping Mark select stocks are Charles Henri-Hamker and Andrew Euretig, co-portfolio managers who have gained considerable knowledge over the years under Mark's tutelage. This trio works together to leverage their more than 90 years of cumulative investment experience to find and invest in companies that can compound growth over long periods of time.

Investing in Atoms, Not Bytes

Andrew, a former Navy officer and a UC Berkeley MBA graduate, has worked with Mark for 17 years and began helping him manage the Artisan Non-U.S. Growth Strategy and the Artisan Global Equity Strategy 11 and 10 years ago, respectively. Early on, Andrew learned from Mark how to identify and assess key attributes that will drive these types of growers. These include characteristics such as strong market positions, competitive advantages and hard-to-replicate product or service offerings benefiting from secular growth trends. We have found these qualitative factors have historically provided a company with the ability to grow fundamentals, even when the market may not be rewarding growth. Although the long-term growth potential of these companies may be clear, inclusion within the portfolio requires they possess high-caliber management teams to deliver on their potential and attractive valuations that provide meaningful upside to investors. Please read Issue 1 of the Resilient Growth series for additional background on these characteristics.

Infrastructure and the environment are among the secular investment themes for which Yockey and team have strong conviction. Capital investments in these themes, as Andrew notes, have been hastened by COVID lockdowns and a war in Europe that have pushed global supply chains to a breaking point. These breakdowns have laid bare the problems with investing too heavily in the virtual world (think: e-commerce and software) while neglecting sufficient funding for the real world (think: physical infrastructure and clean energy).

Andrew provides the example of the team's investment in North American railroads, an industry where 70 major freight carriers have consolidated into six over the last 20 years and pricing power has grown. Trains, he points out, require less energy to move freight than do trucks given that the steel-on-steel physics of the mode creates less friction than the rubber-on-asphalt mechanics of trucking. This difference explains why railroads are a more cost-efficient, less carbon-intensive way to move goods, a fact increasingly recognized by policy makers and investors looking for greener infrastructure solutions. According to industry studies, moving goods by rail

Portfolio Managers (L-R):

Mark L. Yockey, CFA
Portfolio Manager
42 Years Investment Experience

Charles-Henri Hamker
Portfolio Manager
33 Years Investment Experience

Andrew J. Euretig
Portfolio Manager
19 Years Investment Experience

instead of by truck can reduce greenhouse gas emissions by as much as 75%. "And, as fuel prices go up, these cost differences will grow," Euretig explains. He currently covers several railroad leaders, such as Canadian Pacific Railway and Canadian National Railway, that possess pricing power given their unique rail assets and high barriers to entry—all of which can support resilient growth, even in an inflationary environment.

> "Discount rates may change, but our conviction stays the same, especially for thematic growth."
>
> —Andrew Euretig

In addition to transportation, Andrew works with the team's research analysts who specialize in the chemicals, building products, and mining and metals industries, among others. Several portfolio holdings intersect with the team's environment theme and benefit from both short-term pricing power and long-term tailwinds. For example, industrial gas is a corner of the chemicals industry that is not often associated with producing environmentally friendly outcomes, yet it is no less important than other industries in the race to reach carbon neutrality. Industrial gas companies provide essential products such as oxygen, nitrogen, and hydrogen to other carbon-emitting industries, like energy, manufacturing and transportation. Many now see an opportunity in helping other companies reduce emissions in activities such as 3D printing, a process that can help shrink energy consumption and reduce waste in manufacturing. Steel making is another process that can be made cleaner by using hydrogen to replace coking coal in converting iron ore into a liquid form.

Linde, a long-time holding, is a good example of a clean energy beneficiary in this industry. In addition to the steady revenue generated from long-term, take-or-pay contracts, it is well positioned to provide low-carbon solutions to buyers to meet growing demand over the long term. In Q3 2022, Linde was one of the lowest ESG risk positions across both strategies as rated by Sustainalytics, an ESG data provider for the team. Linde's focus on long-term results, including its investment in the development of blue and green hydrogen, underscores its commitment to carbon reduction. In September, for example, Linde announced plans to build a 35-megawatt electrolyzer in Niagara Falls, New York to potentially double its green hydrogen capacity in the US. The company more recently announced a strategic collaboration with another portfolio holding, Schlumberger, on carbon capture, utilization and sequestration that will benefit both companies and attract new investors.

Strong Support Team

Underpinning the Artisan Partners Global Equity Team's success is a diverse group of more than 20 investment professionals spanning multiple time zones and languages. Brett Meyer is the chief operating officer for the team, a dedicated position designed to enable a distraction-free investing environment for the team. Specifically, Brett acts as liaison between portfolio managers and the research analysts to highlight priority areas of research, oversees the integration of ESG principles, recommends where further engagement with company management teams may be necessary and helps the team consider macro or political impacts on investments. Brett's various activities converge as chairman of the Investment Portfolio Committee (IPC), a committee tasked with evaluating portfolio-level risk and deciding how to best balance risk and reward. All three portfolio managers, as well as Senior Financial Analyst Claudia Corra, join Brett on the IPC. Leveraging significant technological investments made in both internal and external capabilities, the IPC monitors common risk factors to understand exposure to unintended risks across the portfolios. For example, Barra analytics inputs allow the team to run sensitivity analysis to factors such as interest rates, commodity price changes and other portfolio dynamics such as quality, growth and momentum.

A recent example of the IPC's work across the portfolios was when it identified areas of elevated risk in China and in the technology sector. Subsequent discussions within the IPC led to a shift away from these areas at key inflection points. This pivot allowed the key decision makers to consider more compelling bottom-up opportunities in energy, consumer brands and financials in Europe and North America. For example, after Russia's invasion of Ukraine and the ensuing international outrage, it became clear Europe would seek to transform its energy markets and move away from its reliance on Russian oil and gas. This created the opportunity for the IPC to work with the team to analyze companies within the environment theme that could provide a clean energy transition in Europe given the severe energy shortages. The team identified Shell as one such stock that is well-positioned to take advantage of this opportunity. As an integrated energy company, approximately one third of Shell's revenues come from oil and gas, one third from transition fuels and one third from new energy. One of the transition fuels it supplies is liquified natural gas (LNG). LNG is the cleanest of the fossil fuels and represents a potential bridge to the future by replacing higher-carbon energy sources with lower-carbon ones while renewable technologies mature. With more countries restricting new drilling, increased consolidation and growing demand worldwide, the team is constructive on certain dynamics within the energy sector. As the largest LNG supplier in the world, the team believes Shell is attractively valued and is particularly well positioned to help Europe meet its energy needs as it looks for ways to replace imported Russian oil and gas with new sources.

Having the right investment approach and a diverse and deep bench of long-tenured professionals allows the Global Equity Team to remain laser focused on finding resilient growth stocks in today's volatile markets. In the next issue, Artisan will evaluate compelling resilient growth stocks with senior financials analyst Claudia Corra.

For more information: Visit www.artisanpartners.com

Investment Risks: 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. 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 in Artisan Partners' Form ADV, which is available upon request.

This summary represents the views of the portfolio manager as of 31 Oct 2022 and is subject to change without notice. Those views may change, and the strategy disclaims any obligation to advise investors of such changes. For the purpose of determining the strategy's '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 in the strategy composite's total net assets as of 30 June 2023: Artisan Non-U.S. Growth Strategy—Canadian Pacific Kansas City Ltd 1.9%, Linde PLC 5.3%, Schlumberger NV 2.3% and Shell PLC 0.5%. Artisan Global Equity Strategy—Canadian Pacific Kansas City Ltd 0.7% and Linde PLC 1.1%. As of 3 Mar 2022, Russian holdings are valued at zero. Securities named in the Commentary, but not listed here are not held in the portfolio as of the date of this report. Portfolio holdings are subject to change without notice and are not intended as recommendations of individual securities.

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8/1/2023 – A23788L-vXUS