



# Artisan International Explorer Fund

## QUARTERLY Commentary

Advisor Class: ARDBX | Institutional Class: ARHBX

As of 31 March 2025

### Investment Process

We seek to invest in high-quality, undervalued businesses that offer the potential for superior risk/reward outcomes. The investment universe is generally non-US equities with market caps below \$5 billion.

#### 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.

### Portfolio Management



Beini Zhou, CFA  
Co-Portfolio Manager



Anand Vasagiri  
Co-Portfolio Manager

N. David Samra  
Managing Director

### Investment Results (%)

As of 31 March 2025	Average Annual Total Returns						
	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception
Advisor Class: ARDBX	5.82	5.82	7.26	—	—	—	9.94
Institutional Class: ARHBX	5.90	5.90	7.33	—	—	—	10.01
MSCI All Country World ex USA Small Cap Index	0.64	0.64	1.87	—	—	—	5.53

Source: Artisan Partners/MSCI. Returns for periods less than one year are not annualized. Class inception: Advisor (16 May 2022); Institutional (16 May 2022).

Expense Ratios (% Gross/Net)	ARDBX	ARHBX
Annual Report 30 Sep 2024 <sup>1,2,3,4</sup>	1.44/1.40	1.37/1.33
Prospectus 30 Sep 2024 <sup>1,2</sup>	1.46/1.42	1.40/1.36

<sup>1</sup>Net expenses reflect a contractual expense limitation agreement in effect through 31 Jan 2026. <sup>2</sup>See prospectus for further details. <sup>3</sup>Excludes Acquired Fund Fees and Expenses as described in the prospectus. <sup>4</sup>Net expenses also reflect a voluntary waiver of expenses related to proxy voting during the year. See the Annual Report for further details.

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.



## Move Over, AI

People often ask us: How is your portfolio positioned these days, and what's your exposure?

This question always makes us wonder what they hope to hear. Sometimes, we think people just want to hear us mention the latest buzzwords, such as GenAI, humanoids or GLP-1. As if us jumping onto the latest bandwagon would somehow mean we're fishing in the right pond, regardless of whether or not it's the surest way to compound our clients' money over time.

Well, longtime readers should not be surprised to hear that we do almost the opposite. The majority of the businesses in our portfolio have been anything but sexy. Among our top 10 positions at quarter-end are an Irish homebuilder, a French outsourced engineering service provider, a Dutch lighting company, a Japanese industrial and architectural paints business, a Chinese industrial casting components maker and an Australian insurance broker serving small business owners. We're not sure about you, but none of these gets our adrenaline pumping, at least not by how we described them here.

That is not to say we're not interested in the cool technologies that are indeed making unprecedented impacts in our societies. We do have material positions in software and semiconductor names. Both are direct or indirect beneficiaries of the generative artificial intelligence (AI) boom since ChatGPT launched in late 2022. But we didn't add them to our portfolio as a reaction to some emerging hot theme. In every instance, we invested because the specific business satisfies all four of our key criteria: good business, good management, good balance sheet and good valuation. Each name needs to stand on its own. We don't consider any of them to be a source of so-called "exposure" to related themes, sectors or regions, or their lack thereof. If we have to speak to exposure, then we would say that we provide exposure to about 35 individual businesses that we strongly believe, as a whole, can generate superior risk/reward outcomes over the next several years. This conviction about potential long-term wealth creation does get our adrenaline pumping.

But we left out one industry above that turned out to be even hotter than AI this quarter. Our material "exposure" to this industry, if you will, has generated outsized returns for us in recent periods. We're talking about European defense. As the US seems to be pulling the plug on funding, the region has begun scrambling to boost its own defense budgets. As a result, the European defense sector's valuation soared in the quarter, notably on the trading day right after the widely publicized meeting in the White House between Ukraine's President Volodymyr Zelenskyy and President Donald Trump.

What's lost in the kudos behind our investments in the sector was how it all started—quietly. We initiated our portfolio's position in Hensoldt, the German defense electronics company, at the inception of the fund in May 2022. We had been following the name for many years, and our thesis on the company had nothing to do with the war that ended up starting in Ukraine. Our thesis on Hensoldt back then

was utterly boring. In other words, it was business as usual for us—we bought it because the company satisfied all four of our key criteria. Whereas these days, we keep getting asked about the opportunities we see in European defense, and we vividly remember most people could not have cared less about our new "exposure" to the space when we were first getting involved. Some more ESG-conscious investors even questioned our sanity. Times certainly have changed.

So, given unprecedented uncertainty post "Liberation Day," what's our current exposure? We seek to combat variables with constants. We do what we always do—buy and own undervalued businesses run by sensible capital allocators with an underlevered balance sheet. Hopefully, if we do it right, we'll occasionally end up owning some names that investors cannot buy enough of down the road, even if they initially look downright boring or cause some raised eyebrows.

## What We Bought and Sold in the Quarter

We initiated one new position in the quarter.

We bought Elementis, a UK-based specialty chemicals business. Its core products are rheology modifiers. Rheology is the branch of physics that deals with the flow of matter, so rheology modifiers are used as additives to help adjust the viscosity of a final product. Elementis sells into two major end markets—personal care (cosmetics and skin care) and coatings (industrials and architectural paints). When personal care products are applied on skin or paints on surfaces, it's the rheology modifiers mixed inside that ensure the product has the right amount of stickiness.

Rheology modifiers can be produced in many ways, but what sets Elementis apart is its ownership of a unique mine in California that has decades' worth of reserves in the natural mineral hectorite. It is a white clay with superior characteristics to other clays, such as bentonite. Thus, additives derived from hectorite give a final product better viscosity. Our research has confirmed that Elementis' mine is one of the largest—if not the largest—high-quality hectorite mines in the world, making it a scarce asset, in our view.

A good, high-level way to think about its core business flow is that Elementis mines, processes and formulates hectorite into rheology modifiers, and then it sells the additives to personal care or coatings customers, who then blend them into their final products. In terms of sales mix between the company's two end markets, the personal care segment only makes up approximately one third of its top line. But that end market has higher margins and therefore accounts for ~45% of its total profit. The entire business has ~40% gross margin and a mid-teens operating margin. Management is aiming for 19% operating margin over the medium term, which we believe should be achievable.

On the management side, Elementis' current CEO, who's been at the helm for close to a decade, is stepping down, and a division head is being promoted to fill the role. We very much welcome the change since capital allocation has been questionable under current

management. Its poor acquisitions track record in the past decade resulted in a public revolt from major shareholders in the past year or so. This likely led to the CEO transition and the recent appointment of a new board member who represents a major shareholder and whose interests, we believe, are aligned with ours.

When we initiated our position, the company was valued at low-to-mid teens times free cash flow (FCF), but we believe the business is worth mid-to-high teens times FCF, with a higher valuation multiple attached to its personal care business and a lower one to its coatings business.

We sold out of two names in the quarter.

We sold Denmark-based ALK-Abello after trimming most of our position last year. It's the global leader in allergen immunotherapy with roughly 40% market share. Its FDA-approved oral tablets for treating various respiratory allergies have been slowly but surely gaining traction worldwide. It had a good 2024 as record-high sales and earnings helped drive up its share price, so we took the opportunity to exit.

We also sold Alzchem, a specialty chemicals business in Germany. We sold the last major batch of shares at over 4X the initial share price paid when we launched our fund in May 2022. It's probably no exaggeration to say that we kissed something that looked like a frog, and it ultimately turned into a princess. While it was unloved and neglected at the beginning of our involvement, trading at only 8X P/E, these days, the market cannot seem to praise its growth prospects enough. Besides its solid fundamentals, the fact that it's now become a European defense play has further fueled its share price. One of its products can be dually purposed in both civil (i.e., auto) and defense end markets, and management has smartly moved capacity toward defense in recent years as demand has boomed. We have to admit that we had no idea this particular product could be repurposed for non-civil use when we first bought its shares. As someone wisely said, good things can happen when you buy undervalued businesses run by sensible management.

### Top Contributors and Detractors

We outperformed our benchmark by over 500bps this quarter.

Our top two contributors in Q1 were Impro Precision Industries and Hensoldt.

Impro is a Chinese industrial precision components maker listed in Hong Kong. It specializes in a manufacturing method called casting. If you're familiar with Precision Castparts, which Warren Buffett's Berkshire Hathaway owns, then you can loosely consider Impro as the Precision Castparts of China. It inadvertently became our AI play in the quarter as investors woke up to its role in the ongoing AI-driven data center construction boom. Diesel engines are needed as a backup power source for every data center, and Impro makes key components for high-power diesel engines manufactured by US and

Europe-based companies. This part of the business boomed last year and has rapidly grown to around 20% of its total revenue. This growth trend should persist as long as power-hungry data centers continue to be built. Its share price ended the quarter at a little over 10X P/E, which we still regard as quite reasonable.

Hensoldt is a German defense electronics maker. We commented on this name in the first section of this letter. As the US reconsiders its priorities, including the role of NATO in Europe and negotiating a ceasefire deal with Russia over Ukraine, Europe finds itself scrambling to boost its military budget. This caused the share prices of many European defense sector companies to soar in the quarter. When euphoria arrives, we often move the other way—we trimmed our position substantially during the quarter.

Our two biggest detractors in Q1 were FDM Group Holdings and Essentra.

FDM is a UK-based company that provides training and staffing in various IT services, risk management and compliance roles, mainly for the financial services industry. Most traditional staffing companies provide little, if any, training and only short-term (months-long) work. But FDM recruits mainly college graduates, trains them for 6 to 12 weeks (often based on specific end clients' requirements), and then places them on-site at clients' offices for 2 to 3 years. During the on-site period, trainees are employed full-time by FDM, resulting in a double-digit margin between what clients pay FDM and what FDM pays trainees. At the end of the on-site period, many of the company's trainees either get hired full-time by the client they've worked for or use the experience accumulated while employed by FDM to find a job elsewhere.

Its business activity peaked around 2022–2023, driven by the pandemic-period labor shortage. We first went to visit FDM in 2022. We liked the founding management team with its owner-operator mindset and the net cash balance sheet, but we deemed its valuation too expensive. We waited on the sideline, watching the business decline from its peak, and management aggressively cut its cost base. We didn't pull the trigger until about a year ago when its share price tanked on a big profit warning. We've been subsequently averaging our cost down in the past year, particularly in the latest quarter. Toward the end of the quarter, its share price rebounded as its 2024 full-year earnings showed early signs of client demand stabilizing. It's now trading at around 10X what we consider fairly depressed earnings ex-cash.

Essentra is an industrial components manufacturer and distributor in the UK. It supplies a long list of small items to factories across the world. Think of fasteners, protection caps, plugs and hinges. These components either go inside end products or are used during production runs. Common characteristics across all the components it sells are that they're typically very low-priced (often costing cents or less apiece) but play a critical role that factories cannot run without. Because they're so far down the bill of materials in terms of total

spending for a factory, reliable delivery service matters as much as, if not more than, pricing. Hence, Essentra has price bargaining power over its customers as its average pricing typically increased in the low-single digits even before inflation reared its head in recent years.

Essentra used to be a much larger three-segment industrial conglomerate, which did not interest us. We became involved in late 2022 when it sold the two other segments to become a pure play. In hindsight, we got in too early. Weak European industrial production since the Ukraine war broke out has hurt its performance, and the sentiment around the stock was further dampened by the cautious outlook given in its more recent earnings report. The stock price has fallen, and it now trades at an earnings multiple in the low teens. We gradually added to our position in the past year at what we believe is an attractive discount.

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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.

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MSCI All Country World ex USA Small Cap Index measures the performance of small-cap companies in developed markets 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.

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**Free Cash Flow** is a measure of financial performance calculated as operating cash flow minus capital expenditures. **Price-to-Earnings (P/E)** is a valuation ratio of a company's current share price compared to its per-share earnings. **Price-to-Earnings (P/E) ex-Cash** is a valuation ratio of a company's current share price excluding cash holdings compared to its per-share earnings. **Gross Profit Margin** is a metric analysts use to assess a company's financial health by calculating the amount of money left over from product sales after subtracting the cost of goods sold (COGS). Sometimes referred to as the gross margin ratio, gross profit margin is frequently expressed as a percentage of sales. **Operating Margin** is a measure of profitability equal to operating income divided by revenue.

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