Artisan Non-U.S. Growth Strategy

QUARTERLY
Commentary

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Portfolio Management

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Investing Environment

Global equity markets advanced during Q2, though performance was uneven. Markets broadly rebounded in April and continued to move higher in May, supported by healthy corporate earnings, improving investor sentiment and broader participation across several major regions. European equities moved higher despite uneven economic data and lingering concerns about inflation and interest rates. Emerging markets were also strong, led by Korea and Taiwan, where semiconductor and technology companies benefited from continued export demand and hyperscaler investment in advanced computing infrastructure.

Inflation pressures persisted, and while stabilizing energy prices helped ease some near-term concerns, expectations of additional rate hikes in the US and Europe grew. Investors began to contemplate the risk that tighter financial conditions and sticky inflation could weigh on economic growth.

By June, momentum slowed as investors questioned whether artificial intelligence (AI)-related valuations and capital spending expectations had moved too far too quickly. Technology and semiconductor companies were the main targets of selling, while some infrastructure stocks also experienced volatility. This pressure was most pronounced in markets with heavier exposure to the AI infrastructure and semiconductor supply chain.

Geopolitics remained an important source of volatility throughout the quarter. The conflict in the Middle East continued to influence energy markets, inflation expectations and investor risk appetite. Energy prices gradually stabilized as shipping traffic through the Strait of Hormuz moved closer to normal levels, and Brent crude returned to prewar pricing by the end of June, helping ease near-term inflation concerns. However, the broader backdrop remained fragile, with a cease-fire in place but ongoing tit-for-tat strikes and markets still sensitive to renewed supply disruption or regional escalation.

Portfolio Performance

The portfolio underperformed the MSCI EAFE and MSCI All Country World ex-United States indices during Q2 yet remained ahead of both benchmarks in the first half of the year. The main setback to the portfolio came from our underweighting in information technology, a result of our bottom-up stock selection approach rather than the team's overall outlook on the sector. The portfolio's absolute return in the sector was on par with the primary benchmark. Elsewhere, from a sector allocation standpoint, the portfolio's non-exposure to the energy sector was a positive for performance as energy prices gradually returned to near pre-Iran-conflict price levels.

Our stock selection in the industrials and materials sectors helped the portfolio outperform each benchmark in both sectors. Conversely, several names in the utilities sector hindered portfolio performance despite the market's correction in June. While headwinds varied, we can confidently point to rising bond yields as the reason the sector's European names detracted in April and June. Higher rates tend to push investors out of this rate-sensitive sector. Utilities holdings in Japan and Korea also faced higher interest rates, plus limited energy imports from countries in the Persian Gulf. The underlying long-term thesis for our names in this market is largely unchanged, and we view the latest headwinds as a near-term concern. Year to date, keen stock selection has been the main driver of the portfolio's leading performance over the MSCI EAFE Index.

Regionally, holdings in Indo-Pacific emerging markets fared best across two themes: electrification, and aerospace and defense. Holdings in Europe underperformed each benchmark, with stocks in the Netherlands and UK lagging the most. In the first half of the year, Korea, Taiwan, Greece and Japan were the strongest performing markets for the portfolio.

On a more in-depth look, names related to our big three investment themes paid off in the front half of 2026. AI-related investment propelled Taiwan Semiconductor Manufacturing Co (TSMC) and Samsung to new highs. Both have been reaping the rewards of a supply-constrained environment for advanced computing, as demand for leading-edge semiconductors, memory and related capacity remained high. For TSMC, management has noted improved demand visibility into 2027 due to the release of its 2-nanometer (nm) generation of semiconductor chips, which are designed to be faster and more power-efficient for AI and high-performance computing customers. We believe the supply-related tailwinds for TSMC should remain, and pricing power is expected to improve relative to the 3nm generation.

Samsung also remains well positioned for the rest of the year. Hyperscalers are increasingly seeking longer term supply agreements to secure high-bandwidth memory (HBM) and advanced DRAM capacity, while NAND margins are growing and Samsung continues to gain share in the HBM market. We remain mindful of emerging risks around hyperscalers' capex discipline and potential efforts to reduce system specifications.

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On the other side of our electrification names, Sieyuan Electric Co was a detractor during the quarter. Sieyuan Electric is a Chinese power equipment manufacturer specializing primarily in high-voltage switchgear and power transformers. As with Korean electric companies, Sieyuan's export orders have higher margins than domestic orders. While it operates in China, it is not a state-run enterprise, making it a more palatable option, in our view. Against this backdrop, shares were pressured alongside other Hong Kong IPO candidates after reports that the Chinese government was imposing overseas investment restrictions. The reports added uncertainty about when IPO regulatory clearance from mainland China might be granted. Furthermore, discussions of European trade restrictions created additional concern given Sieyuan's growing exports to the region. Despite these concerns, Q1 EBIT rose 47% year over year, and management reiterated guidance for more than 25% revenue growth and 30% new-order growth in fiscal year 2026.

Our European financials holdings continued their streak of healthy performance. BNP Paribas was a top contributor to the portfolio. The French bank continued to integrate AXA Investment Managers into BNP Paribas Asset Management to achieve meaningful cost savings and revenue synergies while adding roles in strategic growth areas such as alternatives, ETFs, distribution, insurance and AI. During the quarter, BNP also confirmed its 2026 and 2028 profitability targets. European banks should continue to benefit from a more supportive rate backdrop. Persistent inflation and Middle East-driven energy price pressures have led investors to expect higher-for-longer policy rates, with the ECB raising rates in June. Higher rates can benefit banks because liquidity can be reinvested into Treasurys, reserves or other interest-earning assets at higher yields, while the cost of deposits often rises more slowly. That can help preserve or increase the spread banks earn on their balance sheets.

Shares of AIA came under pressure after new Hong Kong rules increased scrutiny around mainland Chinese investors' use of Hong Kong accounts for offshore financial products. The concern is that additional requirements around the source of customer funds could create friction for mainland Chinese visitors purchasing savings and insurance products in Hong Kong, an important channel for AIA. Hong Kong accounted for 21% of AIA's value of new business, with mainland Chinese visitors accounting for 26% of Hong Kong's value of new business (VONB) in Q1. Typically, mainland China accounts for nearly 50% of VONB. We view the pressure from regulatory uncertainty to be overdone, as the new framework targets other companies' illegal cross-border financial operations, such as those of Futu Holdings. We will continue to monitor the situation, but it is our belief that Chinese regulators would not want to weaken Hong Kong's role as a growing financial center for legitimate long-term assets.

Finally, names in our aerospace and defense theme had mixed results. Although absolute returns were positive, many of the names that enjoyed a strong run over the one-year period prior to this quarter were subject to profit-taking pressures. One outlier was Safran. It was a main contributor to the portfolio, supported by continued strength in civil aerospace and the engine aftermarket. The French aerospace and defense supplier reported Q1 sales and deliveries ahead of expectations, with management indicating the company could finish toward the high end of its full-year guidance range. Propulsion services revenue grew 24%, helped by vigorous demand for shop visits, stronger pricing and an unusually high mix of full-scope engine work. Through our research and meetings with management, we expect aircraft retirements to remain very low in both 2026 and 2027, supporting demand for spare parts, spare engines and maintenance services. Defense was also an incremental contributor, with missile propulsion expected to grow more than 20% in 2026 and capacity planned to increase 4X to 5X by 2030.

Babcock detracted despite continued operational progress. Shares of the British defense company were pressured by a £140 million charge related to rework and design changes on the first two ships in the Type 31 frigate program. Modifications were more complex since the vessels were already launched. The charge overshadowed an otherwise solid full-year earnings release, with organic growth, margin expansion and free cash flow all improving, while management reiterated its medium-term guidance and announced another £200 million share buyback. Later in June, shares weakened after the UK Ministry of Defense replaced earlier Type 83 and Type 32 plans with a new Common Combat Vessel concept, creating concern about future naval opportunities for Babcock. We view the reaction as overdone, as Type 83 was still in early-stage development and Type 32 had not been funded for years. The new vessel concept remains aligned with Babcock's existing capabilities in modular frigates, command vessels and unmanned maritime systems.

Portfolio Activity

Portfolio activity during the quarter remained focused on the three major investment themes that have guided much of the portfolio in recent periods: electrification, financials, and aerospace and defense. We did not introduce a new theme to the portfolio. Instead, we continued to evaluate where the best opportunities within these themes are emerging around the world, adding to areas where we believe the risk/reward remains attractive and trimming or exiting holdings where strong share performance had moved valuations ahead of our expectations.

Within aerospace and defense, we sold our remaining position in Hanwha Aerospace and reduced our position in LIG Defense and Aerospace. Both companies have been excellent investments for the portfolio, benefiting from rising global defense spending, strong export demand and growing interest in Korean air-defense and weapons systems in the Middle East. However, share prices appreciated rapidly, and we believed the risk-reward profile had become less compelling as the future opportunity was increasingly reflected in valuation. We gradually locked in gains earlier this year as the rally in Korean defense stocks became more pronounced.

The sales do not reflect a negative view of the companies' underlying fundamentals. Hanwha Aerospace continues to have a strong order backlog, attractive export margins and opportunities in Poland, the Middle East and broader European defense markets. LIG also remains well positioned, with a sizable backlog, higher margin overseas contracts and capacity expansion underway to meet demand for missile, electronics and air-defense systems. We continue to hold LIG because we believe the company's long-term fundamentals remain intact, even as we reduced the position to better reflect valuation and portfolio balance.

We took a similar approach with LS Electric within the electrification theme. LS Electric has been one of the portfolio's top contributors since entering the portfolio, and we had been gradually trimming the position earlier in the year. We increased the pace of selling during Q2 following another sharp rise in the share price, aided by continued enthusiasm for AI data center demand and a stock split that further fueled momentum. The underlying business remains strong, with management pointing to robust hyperscaler demand, multiyear order visibility, and margin expansion potential from mix shifts toward higher margin circuit breakers and US data center customers. However, after shares rose more than 90% YTD and more than 400% over the prior year, much of the order growth, margin improvement and hyperscaler opportunity appeared to be reflected in the valuation. Amid the strength, we locked in gains by completely closing our position while maintaining conviction in the broader electrification theme.

Sticking with electrification, we added Sumitomo Electric Industries, a Japan-based manufacturer of electric wires, cables and related equipment. The company provides portfolio exposure to several areas of constrained infrastructure supply, including high-voltage power cables, optical fiber and connectivity products for data centers, and electrical components tied to rising vehicle electrification. High-voltage cable capacity has become increasingly valuable as utilities and renewable energy developers compete for long-dated supply, and the company's role in grid and subsea cable projects should benefit from rising investment in transmission infrastructure.

We also added Techtronic Industries, a global power tools leader with well-established brands including Milwaukee, Ryobi and AEG. The business should benefit from innovation, battery-platform scale and resilient demand from professional users, while its exposure to larger commercial and data center megaprojects can provide an additional growth driver.

In consumer-related holdings, we initiated a position in Ryanair, a low-cost European airline with a strong balance sheet and structural cost advantage. Near-term fare uncertainty created what we viewed as an attractive entry point, as management noted that consumers were booking closer to their travel dates, reducing visibility into peak summer fares. We believe this is more a timing and sentiment issue than a sign of structural demand weakness. In fact, passenger growth on a rolling 12-month basis ending in June 2026 increased 5% over the prior period. Ryanair's low fares, dense route network and scale advantages should allow it to continue taking market share from higher cost European carriers, particularly if fuel prices or financing conditions put pressure on less efficient competitors.

Outlook

Looking ahead, the market appears to be broadening beyond the narrow leadership that defined parts of the first half. This is a healthier backdrop for our bottom-up approach, as more companies across regions and sectors are being rewarded for earnings growth, capital discipline and improving fundamentals. On this note, Q2 showed that even strong structural themes can experience volatility when share prices move rapidly, and valuations begin to reflect much of the future opportunity. We expect this dynamic to remain important in the second half of the year, particularly in areas tied to AI infrastructure and electrification, where demand remains strong, but investor expectations have also risen.

On the topic of AI, we believe the technology will disrupt industries as companies integrate the technology into their businesses, similar to what we've already seen in the software industry. Rather than trying to predict every outright winner and loser of the AI revolution, our approach is to identify potential long-term beneficiaries of the AI buildout using the same research process and investment philosophy we have applied in the portfolio for more than 25 years. This includes companies with positive growth profiles, strong management teams and favorable valuations. In our view, the AI buildout creates a wide opportunity set, but not every company that mentions the words "artificial intelligence" in its materials will be a good investment. Our focus remains on identifying companies where AI-related demand can support long-term growth without requiring unrealistic leaps in assumptions to justify the investment case.

As we look at the second half of the year, we believe international markets remain an attractive place to find differentiated growth opportunities. Market leadership appears to be broadening, and the opportunity set outside the US is not concentrated in one sector or country. We continue to find compelling businesses across Europe and Asia tied to real earnings drivers, including grid investment, AI infrastructure, aerospace and defense, and European financials. A higher-for-longer rate backdrop should remain supportive for select bank holdings, while the continued need for power, connectivity and defense capacity supports many of our industrial holdings.

Volatility is likely to persist, driven by central bank policy, geopolitics and shifting expectations around AI-related capital spending. However, we believe this environment should reward our bottom-up process. We will continue to take gains where share prices have moved ahead of fundamentals and redeploy capital into businesses with strong management teams, visible demand, attractive valuations and the ability to compound earnings over time.

Investment Results (% USD)

As of 30 June 2026	QTD	YTD	Average Annual Total Returns 1 Yr	3 Yr	5 Yr	10 Yr	Inception
Composite: Gross—Inception: 1 Jan 1996	**10.45**	**13.66**	**22.38**	**22.62**	**11.22**	**11.46**	**10.51**
Composite: Net	**10.21**	**13.15**	**21.27**	**21.50**	**10.21**	**10.45**	**9.49**
MSCI EAFE Index	10.82	9.44	20.23	16.42	9.04	9.65	5.88
MSCI All Country World ex USA Index[1]	14.49	13.68	27.66	18.80	8.78	9.92	6.26

Calendar Year Returns (% USD)

	2021	2022	2023	2024	2025
Composite: Net	**9.07**	**-19.21**	**14.47**	**10.74**	**36.69**

Source: Artisan Partners/MSCI. Returns for periods less than one year are not annualized. [1]Performance represents the MSCI ACWI ex USA (Gross) Index from inception to 31 Dec 2000 and the MSCI ACWI ex USA (Net) Index from 1 Jan 2001 forward.

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.

Top 10 Holdings (% of total portfolio)

Taiwan Semiconductor Manufacturing Co Ltd	4.4
National Grid PLC	4.4
UBS Group AG	4.3
Contemporary Amperex Technology Co Ltd	4.2
Tesco PLC	3.3
Safran SA	3.2
Air Liquide SA	3.0
HSBC Holdings PLC	2.9
British American Tobacco PLC	2.8
Tencent Holdings Ltd	2.8
Total	**35.3%**

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