Artisan Partners Global Equity Team

Risk Management and Resilient Growth: Two Sides of the Same Coin

Resilient Growth

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Managing risk is a complex, yet critical part of portfolio management. Different investment teams take different approaches. No one way is perfect given that many are successful.

The Artisan Partners Global Equity Team led by Portfolio Managers Mark Yockey, CFA, Charles-Henri Hamker and Andrew Euretig takes a measured, yet disciplined approach to managing risk, one that has led to positive alpha over the long term. It addresses both security-level and portfolio-level risk.

Knowing What You Own

In a constantly evolving business landscape, controlling security-level risk is crucial. The team begins with researching long-term investment themes and studying their impact on industries. Analysts focus on long-term beneficiaries of structural change, potentially avoiding those on the wrong side of it. The team's in-depth research encompasses a comprehensive understanding of a company, its business model, competitors and relevant macroeconomic risks. In selecting stocks, the team focuses on resilient growth characteristics that it believes can lead to alpha over extended periods—attributes like strong secular demand, advantageous market positions, sustainable competitive advantages, pricing power and talented management teams.

Seasoned analysts use various financial and operational metrics, along with tailored quantitative models, to forecast a company's performance under different circumstances. Multiple valuation methods are often used to compare a stock to its own history and to that of its peers.

The team minimizes the risk of capital loss by investing in high-quality companies with resilient business models. Thousands of hours are dedicated annually to meeting with senior management to verify the team's understanding of the company's fundamentals. This year, the team has conducted over 1,700 meetings with close to 1,400 companies. Quality is often evidenced by high current and future operating margins, return on capital and return on invested capital. In short, the team tries to manage security-level risk through an in-depth understanding of the stocks it owns and why it owns them.

Intended Versus Unintended Risks

Distinguishing between risks a manager knowingly takes and those that arise from combining individual stock risks in a portfolio is critical. The team embraces intended risk, an essential part of active management. It enables the team to create a differentiated portfolio, one that can outperform the benchmark. The team's position in Amazon.com is a good example of this principle. As of 30 September 2023, this stock was an out-of-benchmark holding in the Artisan International Fund and an above-benchmark weighting in the Artisan Global Equity Fund. These meaningful position sizes demonstrate the team's conviction in Amazon and its willingness to take an active risk in owning it.

Unintended risks arise from combining individual stock risks when constructing a portfolio. While some unintended risks offset one another, others don't, and they can lead to unnecessary portfolio volatility.

Mark L. Yockey, CFA
Portfolio Manager

44 Years Investment Experience

Charles-Henri Hamker
Portfolio Manager

35 Years Investment Experience

Andrew J. Euretig
Portfolio Manager

21 Years Investment Experience

Within the team, the Investment Portfolio Committee (IPC) meets regularly and is responsible for evaluating unintended risk, among other duties. It is chaired by the chief operating officer and includes senior members of the investment team. In carrying out this function, the IPC considers the effects of broad macroeconomic and political risks on the portfolio. It also utilizes Barra Risk Models to provide insights to the portfolio managers on unintended risk exposure across multiple dimensions, particularly those that contribute to sector, industry, region and country risks. When a predetermined risk threshold is reached, the IPC discusses the contributing factors and considers various options, including selling shares of particular holdings. Any action taken is rooted in understanding of its impact on performance.

The following risk exposures or thresholds trigger further discussion
10% risk in a security
20% risk in a country*
30% risk in an industry
40% risk in a sector

*In the Artisan Global Equity Fund, the US risk exposure threshold is 60%.

Returning to the previous example, while Amazon has been a top contributor in both funds in 2023, it also contributed significantly to stock-specific risk. As of 30 September 2023, Amazon's stock-specific risk had increased to 10.0% in the International Fund and 3.8% in the Global Equity Fund. In reaching the 10.0% threshold, it triggered a discussion in the IPC whereby the company and its stock were re-evaluated, including the potential for further upside. Additionally, the committee re-examined the investment thesis along with the portfolio managers' level of conviction in the stock's growth prospects. Given the positive outcome of this review, the IPC was comfortable with the risk level.

Risk Management and Resilient Growth

By controlling security-level risk, embracing intended risk and avoiding unintended risk, the team attempts to address the risks that matter within its strategies. Supporting this approach, the team focuses on high-quality companies with robust business models. It turns out that managing risk and building a portfolio that can perform across market cycles are two sides of the same coin.