



INTELLIGENT INTEGRATION

Sustainable Investing in Emerging Markets

A R T I S A N



P A R T N E R S

It is not reasonable to judge EM companies through an absolute or first-world lens. Companies are on a journey, and we try to identify those making positive progress within the context of their EM reality.

Sustainability is the capacity to endure, and we believe endurance is critical in emerging markets (EM). We seek companies capable of successfully growing through the inevitable volatility of EM boom and bust cycles, while acting responsibly toward shareholders, employees and the local communities they serve. Through our more than two decades of experience investing in EM, we have learned companies must focus on enhancing long-term shareholder value with a business model committed to both profits and progress. In addition to building sustainable competitive advantages, a critical contributor to an EM company's ability to endure is acting in harmony with the environment and communities in which it operates.

By definition, EM countries are in transition—they exist along a spectrum of various development measures. Because EM countries tend to be less developed from an environmental, social and governance (ESG) standpoint, it is critical to understand individual companies within the context of their country of domicile's current place along the spectrum, rather than analyze them through an absolute or first-world lens.

Our process of assessing EM companies is not a beauty contest. We do not seek perfect companies—none exist—nor companies lacking specific imperfections. Rather, we compare a company's fundamentals and risks to its own history in order to identify change over time and understand how any improvement or deterioration may impact a prospective investment.

We believe tremendous opportunity exists in positive progress, and we look to reward improvement by investing in companies' potential future upside. We seek companies with both a desire to improve and real evidence to support their positive progress.



Our Team

We invest in EM because, as a team, all of us grew up, studied, worked and/or have spent a large amount of time in these countries. We have witnessed emerging markets’ evolution first-hand—the progress made in living standards, technological development, environmental impact, accounting standards, disclosures and an understanding of governance. We are optimistic about this progress and acknowledge the significant strides many EM countries have made toward sustainable business practices—even in some cases outpacing developed market counterparts’ advances.

The core of our team has been investing together in emerging markets for more than 20 years, throughout which we have applied a consistent investment philosophy and process intended to identify companies with sustainable competitive advantages and unique access to growth. Our process incorporates extensive financial and strategic analysis, on-the-ground research, ESG considerations, country risk analysis and our local understanding of EM.

Our backgrounds and experience foster a unique combination of cultural and cognitive diversity that constantly informs our analysis. We believe the keys to successful active management in this asset class are insight and good judgment. As such, we believe our differentiated approach to researching companies for potential investment is an important advantage. Our personal connections to EM also drive our passion for investing in companies making positive progress and working to improve conditions in EM as good corporate citizens and good business operators.



When it comes to ESG within EM, one must consider industry classification or country of domicile, but we also go further to assess to what degree a company is exercising good stewardship toward all its stakeholders.

How We Integrate ESG

ESG analysis has long been an integral part of our investment process as a critical component of understanding a company's earnings sustainability. But we believe—based on our backgrounds and experience—ESG analysis must consider an EM country's inherent state of transition, rather than impose absolute or first-world standards. Assessments of sustainability and business practices and models must be done within the context of companies' operating environments.

We evaluate EM companies individually and focus on the long-term direction and degree of change across multiple ESG-related factors. Truly sustainable opportunities—attractive on both an ESG and a fundamental basis—are best found by constantly monitoring for improvement or deterioration. For this reason, we reject negative screens or exclusion lists; they may be easy to implement, but in our experience, they fail to capture what is happening on the ground. We have witnessed first-hand companies in perceived bad industries make significant strides to improve their environmental impact, transition to more sustainable businesses and be positive employers. When it comes to ESG within EM, one must consider industry classification or country of domicile, but we also go further to assess to what degree a company is exercising good stewardship toward all its stakeholders: shareholders, employees, customers, suppliers and communities.

Our ESG-related perspective is integrated into our investment process through adjustments to company price target estimates. This enables us to make incremental adjustments based on how a company's ESG record impacts its sustainable earnings growth potential. We apply a premium to our estimated target price for companies that exhibit exemplary sustainability practices and discount our price targets for those with higher sustainability risk profiles. To accomplish this, we have incorporated a robust sustainability analysis that is systematically applied to every current and prospective portfolio holding which includes a company's historical, current and future potential behavior.

Our proprietary sustainability analysis has both incident-based and empirical components. On the incident-based side, we perform trend analysis utilizing data from RepRisk, a leader in ESG data science and research. The incident data include frequency and severity of ESG transgressions based on the United Nation's 17 Sustainable Development Goals (SDGs). Our systematic trend analysis allows us to generate more precise measures of individual company risks, as well as factor in improvement over time as companies shift their policies to better align with shareholder interests. The empirical assessment is more forward-looking and experiential. We leverage our long-term coverage of companies, industries and countries, as well as interviews and site visits as part of our extensive travel, company filings and independent ESG sources.

The information we gather from our travels and engagements further informs the empirical component of our sustainability assessments.



The sustainability assessment considers a variety of factors with the capability to materially impact a company's sustainable growth potential

Governance

- Board management
- Business ethics and competitive behavior
- Reporting transparency and communication
- Shareholder ownership and rights

Environmental

- Climate change risk, mitigation and adaptation
- Water stress
- Land use impact and bio-diversity loss

Social

- Human rights and responsibility to the community
- Human capital, labor rights and equity
- Data privacy and security

Engagement and Proxy Voting

A natural part of our hundreds of annual interactions with companies is engagement. In addition to discussing ideas about the companies' prospects or strategies, we regularly ask management about relevant sustainability topics. We want to know if their responses align with RepRisk trend analysis data and see first-hand how they react to our inquiries. We can gain a better understanding of an executive's depth of knowledge and prioritization of ESG matters when sitting in the same room than when reading an ethics statement or annual report. Our on-the-ground research also enables us to visit company facilities and other stakeholders. The information we gather from our travels and engagements further informs the empirical component of our sustainability assessments. When necessary, we will also communicate with a company's board of directors or advisory board. In some circumstances, we will actively participate in a shareholder meeting or otherwise publicly communicate our views about a particular company's business strategy.

Proxy voting is also an important aspect of our investment responsibilities which we believe is a valuable avenue for encouraging and improving governance practices. This is especially important in EM countries, where shareholder rights may not be as well established as in developed markets, and the ability to participate and effect change via proxy voting may be more challenging given varied governmental and regulatory environments.

Among the most frequent matters we vote on are director appointments and remuneration, as well as corporate actions. We have gained considerable insight into the right types of leaders within the context of companies, industries and countries broadly, while frequent interactions with company executives and directors provide us valuable perspective on specific individuals.

An Evolving ESG Perspective

Incorporating ESG into our investment process is not a recent phenomenon—rather, it has long been a component for determining a company's earnings sustainability. While our investment philosophy and process have remained consistent, we have made numerous enhancements to our sustainability analysis as the quantity and quality of ESG information has improved.

In early 2019, we replaced our prior reliance on third-party ESG scores with an incident-based analysis based on event data from RepRisk. In our view, the third-party ESG scoring system had data limitations—particularly a significant reliance on company-provided information—while the process was largely backward-looking, static and blunt. Conversely, we believe our current methodology provides more dynamic results by looking at incidents relative to the EM universe, as well as the trend in occurrences over a multiyear horizon. All recorded incidents are identified through the monitoring of media, non-governmental organizations and other public sources, rather than company disclosures. We are also able to classify the incident data across a variety of factors in order to produce separate environmental, social and governance scores.

In 2020, we started examining enhancements to our empirical assessment. As investor demand for ESG consideration as well as ESG-related resources has grown, we have sought ways to increase the level of detail and deepen our analysis. The goal is increasing the comprehensiveness and uniformity of our empirical assessments across analyst coverage areas, especially where analyst overlap occurs. Our improved ability to classify companies based on specific ESG factors enables us to ask more insightful questions, perform deeper analysis and gain a more nuanced perspective. We believe this is critical for a team like ours which avoids negative screens and invests in a simultaneously dynamic and opaque asset class such as EM.

Our recent enhancements simply reflect the constant evolution of our sustainability analysis during the course of our more than two decades of EM investing. Within our investment process, the sustainability component has undergone the greatest and most consistent change, and we expect that will continue as investors, companies and all stakeholders increasingly recognize the importance of ESG. For us, sustainability is about the future and the pursuit of success over time—in our investment outcomes as well as all facets of EM living standards.





Maria Negrete-Gruson, CFA
Portfolio Manager

32 Years Investment
Experience

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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.

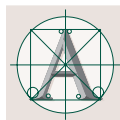
Current and future portfolio holdings are subject to risk. The value of portfolio securities selected by the investment team may rise or fall in response to company, market, economic, political, regulatory or other news, at times greater than the market or benchmark index. Investments in which the team has determined to have sustainable growth characteristics may underperform other securities and may not achieve their sustainable growth potential. A portfolio's environmental, social and governance ("ESG") considerations may limit the investment opportunities available and, as a result, the portfolio may forgo certain investment opportunities and underperform portfolios that do not consider ESG factors. Non-diversified portfolios may invest larger portions of assets in securities of a smaller number of issuers and performance of a single issuer may have a greater impact to the portfolio's returns. 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 and less developed markets, including frontier markets. Such risks include new and rapidly changing political and economic structures, which may cause instability; underdeveloped securities markets; and higher likelihood of high levels of inflation, deflation or currency devaluations. 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.

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