



# Artisan Emerging Markets Debt Opportunities Strategy

QUARTERLY  
Commentary

As of 31 March 2024

## Investment Process

We employ in-depth fundamental research and robust operational capabilities across a broad opportunity set to uncover knowledge gaps that can lead to idiosyncratic opportunities with compelling risk-adjusted return potential.

## Organizational Structure

We have a flat and collaborative organization where portfolio managers and analysts communicate daily and share the responsibility of idea generation. Portfolio managers and analysts determine their own focus areas and pursue them from an idea generation perspective. Trading and implementation is embedded within the investment team, as trading capabilities and infrastructure are considered important components of our investment process.

## Idea Generation Through Broad Investment Universe

Our team covers a broad spectrum of global markets comprising investable assets across more than 100 countries. We constantly perform fundamental country research and monitor financial markets in order to understand each countries' policy environments and how important policy moments may alter their investment environment. Our corporate analysis includes decomposing yields and examining corporate liquidity and solvency risks. We integrate environmental, social and governance (ESG) analysis at the country and corporate levels.

## Portfolio Implementation

We analyze investment opportunities from a risk factor perspective—the forces that drive securities and instruments prices. The investment team and trading and implementation team work together to consider which instruments may provide optimal risk-adjusted returns. The trading and implementation team expands our investment universe by understanding and overcoming investment barriers.

## Team Overview

We are a seasoned investment team with strong continuity across decision makers. Our investment team's core has been together for over 15 years, and our leadership has been investing in emerging markets since 2005. Our coverage areas are generally defined geographically, with some PM/Analysts and research associates focused on corporates.

## Portfolio Management



Michael A. Cirami, CFA  
Portfolio Manager



Sarah C. Orvin, CFA  
Portfolio Manager

## Investment Results (% USD)

As of 31 March 2024	Average Annual Total Returns						
	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception <sup>1</sup>
<b>Composite — Gross</b>	<b>4.17</b>	<b>4.17</b>	<b>15.16</b>	—	—	—	<b>14.29</b>
<b>Composite — Net</b>	<b>3.98</b>	<b>3.98</b>	<b>14.31</b>	—	—	—	<b>13.42</b>
J.P. Morgan EMB Hard Currency / Local Currency 50/50	0.02	0.02	7.57	—	—	—	5.27

## Annual Returns (% USD) Trailing 12 months ended 31 March

	2020	2021	2022	2023	2024
<b>Composite — Net</b>	—	—	—	—	<b>14.31</b>

Source: Artisan Partners/J.P. Morgan. Returns for periods less than one year are not annualized. <sup>1</sup>Composite inception: 1 May 2022.

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.

**Investment Risks:** 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 near the back of this document, which should be read in conjunction with this material.



### Performance Discussion

The portfolio trended higher in Q1, outperforming the J.P. Morgan EMB Hard Currency/Local Currency 50/50 Index, J.P. Morgan EMBI Global Diversified Index, J.P. Morgan GBI-EM Global Diversified Index and J.P. Morgan CEMBI Broad Diversified Index for the period.

### Investing Environment

Following the market rally that closed out 2023, emerging markets debt had a mixed beginning to 2024. A resurgence of unfavorable US consumer price index prints and a resilient labor market led investors to once again price in the idea that interest rates may stay higher for longer. In reaction, the US dollar strengthened, and US Treasury yields gyrated upward, both weighing on emerging markets debt performance. Countering these headwinds, strong fundamentals and resilient economic growth drove credit spreads to their tightest levels since January 2022, boosting risk assets broadly, including emerging markets debt.

Developed market central banks remained hawkish throughout Q1. The Fed held rates steady for its fourth and fifth consecutive meetings in January and March, respectively. Chair Jerome Powell reiterated the Fed's commitment to bringing inflation down to its 2% target yet relayed a surprisingly dovish tone after the March meeting and still forecasts three rate cuts in 2024. The ECB and BOE also held rates steady throughout the quarter, though the ECB suggested a rate cut is likely in June assuming data continues to meet expectations. Elsewhere, the BOJ ended its era of negative interest rates when it raised borrowing costs for the first time since 2007.

Central banks in emerging markets are increasingly diverging from their developed market counterparts. In response to the inflationary surge spurred by the COVID-19 pandemic, emerging markets nations swiftly implemented tight monetary and fiscal policy to curb inflation. As inflation in many countries subsides, emerging markets countries continue to evaluate financial conditions and are now finding themselves at varying stages of the monetary policy cycle. For instance, Brazil, Chile and Colombia all lowered interest rates; Serbia and Poland held interest rates; Nigeria, Egypt and Zambia hiked rates throughout the quarter.

Emerging markets sovereign issuance had its strongest three-month start to a year in more than two decades. In the past two years, many investors believed that higher yielding emerging markets countries were priced out of capital markets as elevated US Treasury yields and wider than average credit spreads lifted the cost of debt issuance. Spread compression during Q1, particularly in the high yield segment of emerging markets, allowed many of these countries to reenter the market and successfully issue debt. For example, Ivory Coast, Benin and Kenya were joined by the likes of Mexico, Brazil and Saudi Arabia.

Emerging markets currencies were broadly weaker as the US dollar appreciated, driven by market expectations of prolonged higher interest rates in the US. Changes to local foreign exchange policies

resulted in sharp selloffs in several countries. For instance, the Central Bank of Nigeria (CBN) devalued the naira in January, the second time in the past 12 months, and allowed the currency to float freely and converge with the parallel market rate. The CBN also raised interest rates twice during Q1, by 400bps in February and 200bps in March. In the past 12 months, the Nigerian naira has depreciated by 67%. Meanwhile, the Egyptian government allowed the pound to weaken by more than 30% in a devaluation, a policy pivot that led to the country securing a deal with the International Monetary Fund and is expected to attract the support of additional foreign investors.

While emerging markets debt remains at the mercy of an increasingly uncertain global macroeconomic backdrop, local events across the globe continue to shape idiosyncratic returns. Senegal was teetering on the brink of crisis after former President Macky Sall postponed the February presidential election and attempted to extend his final term. Yet Senegalese dollar bonds rebounded in March after Sall agreed to step down and Bassirou Diomaye Faye clinched the victory. Ecuador bonds jumped after President Daniel Noboa announced the country expects to reach a deal with the IMF and continued to crack down on violence. A new government in Pakistan, led once again by Prime Minister Shehbaz Sharif, boosted Pakistani dollar bonds. Zambia reached an agreement with bondholders, and Sri Lanka and Ghana made forward progress on their debt restructuring talks, lifting the sovereign bonds in each of those countries.

### Portfolio Positioning

In our view, the portfolio remains conservatively positioned as geopolitical uncertainty persists, though the team continues to prudently add risk when opportunities arise. The team took advantage of the broad-based currency selloff and local policy changes to increase exposure to certain currency regimes, such as the Egyptian pound and Nigerian naira. The team also added sovereign credit exposure to certain countries with robust fundamentals, strong growth outlooks and attractive valuations, specifically in Latin America and Africa. The portfolio remains overweight duration in emerging markets and underweight duration in developed markets relative to the J.P. Morgan EMB Hard Currency/Local Currency 50/50 Index, translating to an overall underweight duration positioning relative to the index. The portfolio ended Q1 underweight local rates in Eastern Europe as differentiation of fiscal policy across the region grew. Meanwhile, the team increased its overweight to local rates in Latin America, where the disinflation process remains robust.

EMsights Capital Group continues to search for countries with improving storylines where market prices are not fully reflecting fundamentals. The global economy continues to face challenges in 2024, many of which are serving as tailwinds that keep the emerging markets debt outlook strong. With one of the busiest election cycles on record, growing geopolitical tensions and fiscal consolidation continue to present exploitable volatility events.

**Exhibit 1: Q1 2024 Attribution—Relative to the J.P. Morgan EMB  
Hard Currency/Local Currency 50/50 Index**

**Contributors**

Overweight to Suriname sovereign credit

Overweight to Nigerian naira

Overweight to Bahamas sovereign credit

**Detractors**

Underweight to Mexican peso

Underweight to Argentina sovereign credit

Underweight to Ecuador sovereign credit

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**Investment Risks:** 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. 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, and 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. Fixed income securities carry interest rate risk and credit risk for both the issuer and counterparty and investors may lose principal value. In general, when interest rates rise, fixed income values fall. High yield securities (junk bonds) are speculative, experience greater price volatility and have a higher degree of credit and liquidity risk than bonds with a higher credit rating. Use of derivatives may create investment leverage and increase the likelihood of volatility and risk of loss in excess of the amount invested. These risks, among others, are further described in Artisan Partners Form ADV, which is available upon request.

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Net-of-fees composite returns were calculated using the highest model investment advisory fees applicable to portfolios within the composite. Fees may be higher for certain pooled vehicles and the composite may include accounts with performance-based fees. All performance results are net of commissions and transaction costs, and have been presented gross and net of investment advisory fees. Dividend income is recorded net of foreign withholding taxes on ex-dividend date or as soon after the ex-dividend date as the information becomes available to Artisan Partners. Interest income is recorded on the accrual basis. Performance results for the Index include reinvested dividends and are presented net of foreign withholding taxes but, unlike the portfolio's returns, do not reflect the payment of sales commissions or other expenses incurred in the purchase or sale of the securities included in the indices.

The J.P. Morgan (JPM) EMB Hard Currency/Local currency 50-50 is an unmanaged, blended index consisting of 50% JPM Government Bond Index-Emerging Market Global Diversified (GBIEMGD), an index of local-currency bonds with maturities of more than one year issued by EM governments; 25% JPM Emerging Markets Bond Index-Global Diversified (EMBIGD), an index of USD-denominated bonds with maturities of more than one year issued by EM governments; and 25% JPM Corporate Emerging Market Bond Index-Broad Diversified (CEMBIBD), an index of USD-denominated EM corporate bonds. 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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