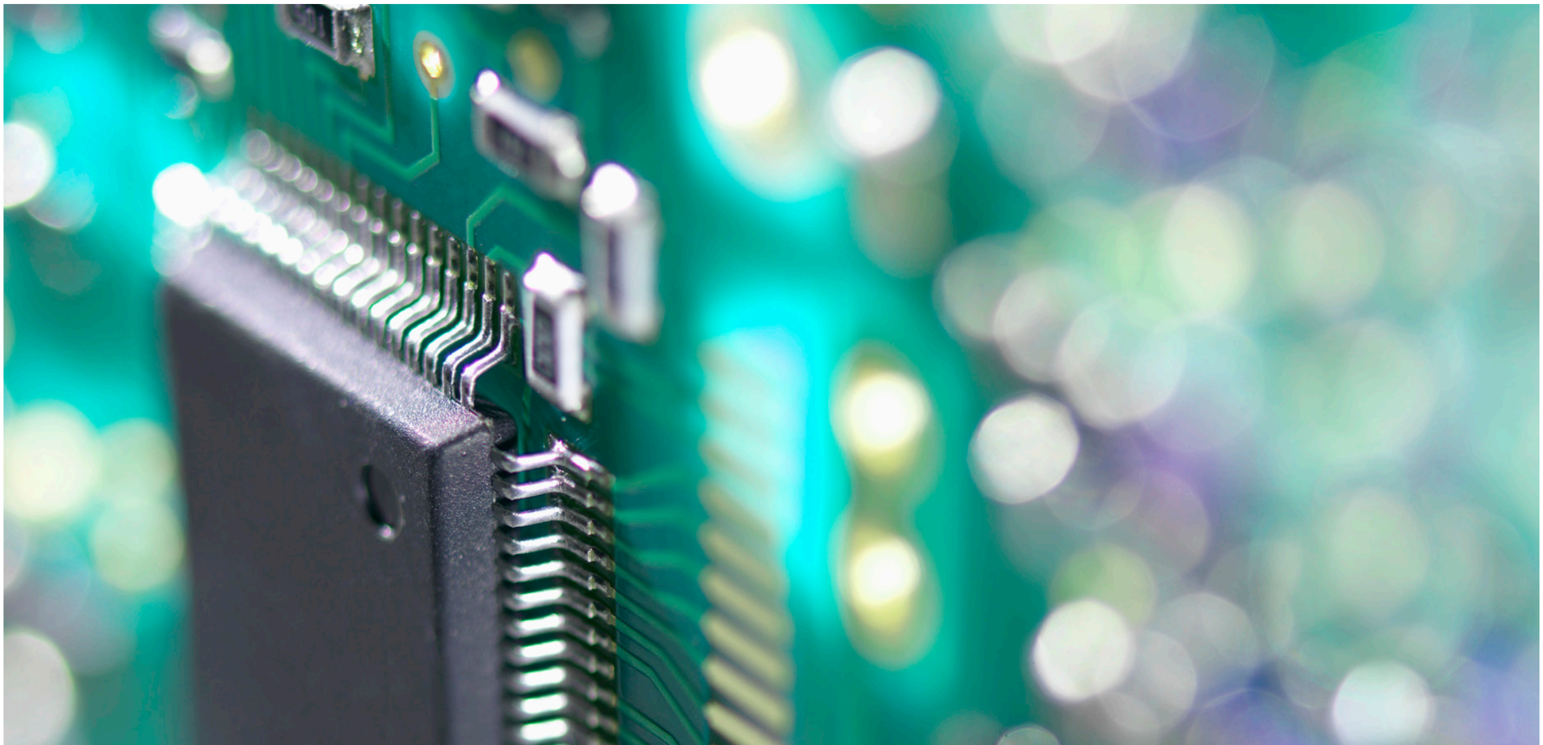

Emerging Markets: The Changing Dynamics

Artisan Partners Emerging Markets Team

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Insights

A R T I S A N   P A R T N E R S

Emerging Markets: The Changing Dynamics

As career investors in emerging markets, we know that change is one of the only constants in emerging markets. Economies in the emerging world are always evolving (or devolving) on their paths to maturity. Throughout our more than 20 years of investing in the asset class, we have seen significant changes in leadership across individual companies, sectors and countries, which continue providing attractive investment opportunities for long-term investors.

We recognized the growth potential of emerging markets when we started investing in the asset class amid the 1997-1998 Asian currency crisis. And we developed an investment philosophy and process that we believe can capture that growth through bottom-up stock selection. We have always focused on identifying companies with business models that translate emerging growth opportunities into long-term sustainable earnings power. In implementing our process, we search across the global EM universe to find companies that are tapping into the unique growth potential of the future. This means our analysts scour the world for the most attractive companies within emerging and frontier markets countries. Our portfolio, therefore, may look quite different from a broad market index.

Over the years, we've witnessed some tectonic shifts in emerging markets that are providing unique investment opportunities in emerging industries. While indices are meant to act as a guide to the investment opportunity set—and the challenges and shortcomings of market capitalization weighted indices are well documented—they are a useful proxy to illustrate these shifts. Twenty years ago, the asset class was mostly a Latin-led investment opportunity, with Brazil and Mexico making up nearly a third of the weight in the MSCI Emerging Markets Index, and the only significant Asian economy was Malaysia; China was basically irrelevant (Exhibit 1). In fact, when China issued its first IPOs—in the bank and telecom sectors—the rest of the economy was an almost nonexistent investment opportunity. Since then, Asia's emergence and China's in particular, has been significant. China is not only the largest country in the index today, it is nearly twice the weight of Korea, the second largest country in the index. Furthermore, Asia represents more than 70% of the index, and the staged inclusion of China A-shares will push this number even higher. At that point, the MSCI EM Index will basically look like an Asia-plus investment opportunity. We wonder as long-term participants in the asset class if this is really the opportunity that EM investors are looking for. While Asia has been successful over the past two decades, we don't believe the future investment opportunity is going to be exclusively Asia centric.

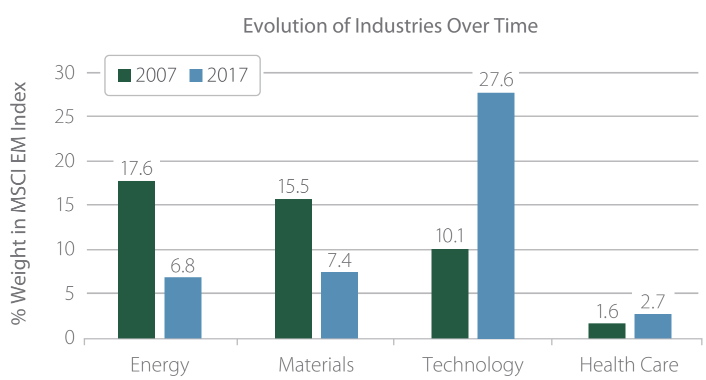
Exhibit 1: MSCI Emerging Markets Index—Country Shifts

1997			2017		
Rank	Country	% Weight	Rank	Country	% Weight
1	Brazil	16%	1	China	30%
2	Mexico	13%	2	Korea	15%
3	South Africa	11%	3	Taiwan	11%
4	Taiwan	9%	4	India	9%
5	Malaysia	9%	5	South Africa	7%
	Total	57%		Total	72%
16	Korea	1%	6	Brazil	7%
24	China	<1%	8	Mexico	3%
Countries in Index		27	Countries in Index		24

Source: FactSet/MSCI. As of 31 Dec 1997 and 31 Dec 2017.

From a sector perspective, emerging markets have historically been known for their commodity-exposed industries, reflected in the heavy energy and materials sector weights in the Index ten years ago (Exhibit 2). While some investors still focus on that story, we find it to be somewhat of an archaic view of the opportunity set. Over the years, economic developments have broadened the investment opportunity beyond materials and natural resources. Technology and health care companies, for example, are now viable investment prospects. While the health care sector only represents a small portion of the index today, it has almost doubled in the past decade. We think this area has tremendous potential, given the demographics, low penetration of health care services and increasing urbanization of emerging economies. We are also witnessing the emergence of the environmental industry, driven by the urbanization and demographics of emerging markets populations. What does all this change mean for bottom-up investors? That sustainable growth stories and compelling valuations in emerging markets are very much alive and well. And we aim to position our portfolio in line with the most compelling investment opportunities in spite of the gravitational pull of well-followed indices.

Exhibit 2: Industry Evolution in Emerging Markets



Source: FactSet/MSCI (GICS). As of 31 Dec 2007 and 31 Dec 2017.

Opportunities in Technology

Over the past decade, the technology sector has seen immense growth—the rise of tech demonstrates not only the progression of emerging markets companies in the space but also their prominence in the global stage today. Population and income growth are boosting demand for technology-related hardware and software. Additionally, improved broadband and Internet access are driving the proliferation of mobile phones and e-commerce.

Companies such as Taiwan Semiconductor Manufacturing (TSMC) and Samsung Electronics, both of which we've owned for many years, are great examples. In the early 1990s, both companies were small players in the semiconductor and hardware industries with huge earnings volatility. Today, TSMC is the global leader in semiconductor industry—in fact, the launch of its 7nm chip will likely hit the market before competitor Intel's. TSMC was a pioneer in the chip fabrication outsourcing model, which enabled the creation and growth of fabless design companies in the US and has empowered consumers with many smaller and better chips for their daily use. Samsung, after struggling for many years in the DRAM business, has become the absolute leader for DRAM and NAND technology. Furthermore, its innovation in OLED panels has created another significant earnings driver for the company. TSMC and Samsung continue focusing on R&D and expanding into new fields such as artificial intelligence. From a corporate governance perspective, we like TSMC's focus on shareholder returns and transparent dividend payout policy; Samsung recently followed suit, launching its own payout policy.

Chinese Internet companies have leveraged the country's large domestic market size to create unique business models that capitalize on the expanding middle class and booming online consumption. As a result, certain industry leaders have enjoyed phenomenal growth in a short period of time. For example, Alibaba, China's largest e-commerce platform, is gaining market share by building 100,000 service centers in small villages to help people buy and sell goods online. Baidu, the dominant search engine in China, leads the market with over 75% market share. With Internet penetration still relatively low and strong secular growth in Internet and search advertising, we believe Baidu has the potential to sustain earnings power for many years ahead.

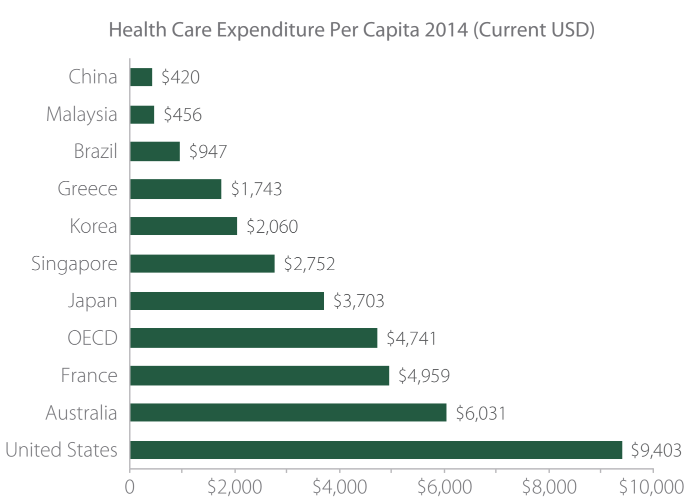
It's worth noting that we aren't just seeing these trends in Asia, but across multiple emerging economies. Consider Yandex, for example, Russia's largest and most popular search-engine operator. Given Internet penetration and online advertising share are still relatively low in Russia, we believe Yandex is well positioned to capture a significant portion of the secular growth. We also like Brazil's leading retail software management company Linx. Linx has been uniquely able to capture retailers' rising demand for e-commerce and software services—an industry with very low penetration and rapid expansion rates.

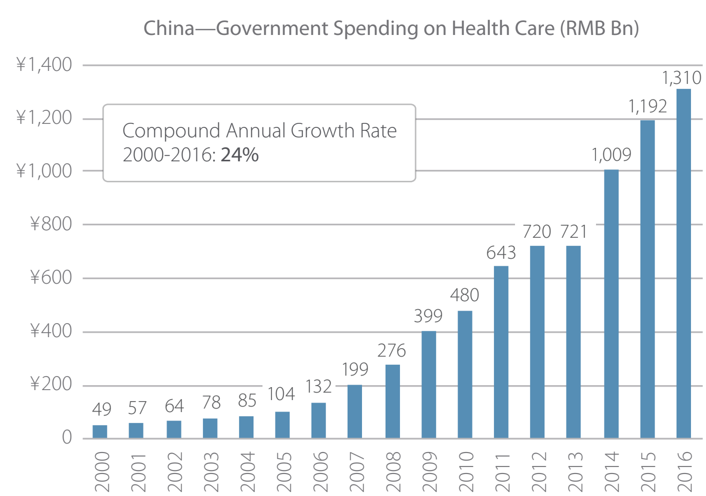
These companies speak to the technological evolution we've seen in emerging markets, and we believe their growth stories illustrate how opportunistic companies can successfully transition from traditional hardware businesses into technological leaders. As always, we maintain our focus on identifying companies that can sustain earnings and profitability over the long term and that have valuations that provide us with significant upside potential.

Opportunities in Health Care

The health care sector is also benefiting from significant demographic changes across emerging markets. Large, rapidly aging populations in developing countries are driving higher demand for health care related products and services. For instance, per-capita health care spending in China is still relatively low compared to developed markets but is escalating rapidly. Further, China's government health care spending grew roughly 24% on a compounded basis from 2000 to 2016 and is projected to reach $1 trillion per annum in 2020. We believe this growth will persist over the next several years as the world's largest population continues aging.

Exhibit 3: Health Care Spending in Emerging Markets





Source: World Bank/JP Morgan/The State Council, The People's Republic of China

Our bottom-up research has led us to companies with sustainable competitive advantages and unique access to growth within the health care sector. China's largest drug distributor Sinopharm, for instance, is well positioned to benefit from the second-largest pharmaceutical market's increasing health care expenditures and expansion into rural areas, in our view. As various government policies target industry consolidation, we believe Sinopharm is well positioned to take market share due to its strong distribution network. Sino Biopharmaceutical is another one of our holdings in the health care arena and a major player in China's pharmaceuticals industry. It has leading positions in hepatitis B and other liver disease treatments and we believe that it is well positioned to sustain profitable growth over the long term.

Interestingly, the health care sector not only offers investment opportunities in various areas such as pharmaceuticals, but creates growth potential for businesses indirectly related such as medical waste treatment services. As populations age and medical expenditures rise in Asia, as does the need for medical waste treatment and disposal. Sunny Friend Environmental is an example of an industrial company capitalizing on the rising needs of the health care sector. The company is one of the largest providers of hazardous waste treatment in Taiwan and Beijing. It was the first licensed medical waste processing company in Taiwan when it established its business in 1994. Since then, it has diversified into industrial hazardous waste treatment and recently launched projects in the Jiangsu, Hebei and Shaanxi provinces. As medical expenditures continue rising, we expect Sunny Friend to capture an expanding share of the market. Additionally, Taiwan and China are focusing on stronger enforcement of industrial waste disposal in response to the growing number of instances of improper handling of waste. Sunny Friend's experience and governmental relationships should prove beneficial to capitalizing on opportunities in the industrials space.

Conclusion

As bottom-up investors, our top priority is finding companies that meet our stringent investment criteria. Through our fundamental research, we seek companies with sustainable competitive advantages and unique access to growth. Our collective experience in the asset class gives us the confidence to walk away from the beaten path of emerging markets. We do not look at the opportunity based on emerging markets as they have been nor as they are today—instead we want to find companies that we believe will sustain profitable growth long into the future. This leads us to opportunities outside the traditional market indices, across the market cap spectrum and into frontier markets. We believe our disciplined focus on sustainable competitive advantages and unique access to growth will position our portfolio well for the continuing evolution of the emerging markets asset class, thus providing attractive investment opportunities for investors looking to capture the true growth potential of emerging markets.

Artisan Partners Emerging Markets Team

Where passion for and commitment to the asset class come together with deep experience and knowledge of local markets to create unique perspectives that are used to identify investment opportunities in emerging markets.

	Maria Negrete-Gruson, CFA	Meagan Nace, CFA	Chen Gu, CFA	Nicolas Rodriguez-Brizuela	Gurpreet Pal	Jessica Lin, CFA
Role	Portfolio Manager/ Analyst	Analyst	Analyst	Analyst	Analyst	Analyst
Investment Experience (Yrs)	26 EM 26 Total	20 EM 25 Total	28 EM 29 Total	18 EM 18 Total	6 EM 14 Total	12 EM 12 Total
Languages Spoken	Spanish/ Portuguese	Spanish	Mandarin	Spanish/ Portuguese	Punjabi/Hindi	Mandarin

2017 Fundamental Research

- Over 100 years combined experience in emerging markets investing
- Traveled to 18 countries across the globe
- More than 730 company meetings

Countries Visited in 2017

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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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This summary represents the views of the investment team as of 31 Dec 2017, and is subject to change without notice. Security examples are for informational purposes only and are not representative of the entire portfolio. There is no guarantee that investment within the securities mentioned will result in profit. While the information contained herein is believed to be reliable, there is no guarantee as to the accuracy or completeness of any statement in the discussion. This material is for informational purposes only and should not be considered as investment advice or a recommendation of any investment service, product or individual security.

For the purpose of determining the Funds' holdings, securities of the same issuer are aggregated to determine the weight in the Fund. Securities named in the Commentary; but not listed here are not held in the Fund(s) as of the date of this report. The holdings mentioned above comprise the following percentages of Artisan Emerging Markets Fund total net assets as of 31 Mar 2018: Taiwan Semiconductor Manufacturing Co Ltd 5.4%, Samsung Electronics Co Ltd 6.8%, Alibaba Group Holding Ltd 5.6%, Baidu Inc. 1.8%, Yandex NV 0.9%, Linx SA 1.0%, Sunny Friend Environmental Technology Co Ltd 1.7%, Sinopharm Group Co Ltd 1.2%, Sino Biopharmaceutical Ltd 2.6%.

MSCI Emerging Markets Index measures the performance of emerging markets. The index(es) are unmanaged; include net reinvested dividends; do not reflect fees or expenses; and are not available for direct investment.

Compound Annual Growth Rate (CAGR) is the year-over-year average growth rate of an investment over a period of time. It is calculated by taking the nth root of the total percentage growth rate, where n is the number of years in the period being considered.

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