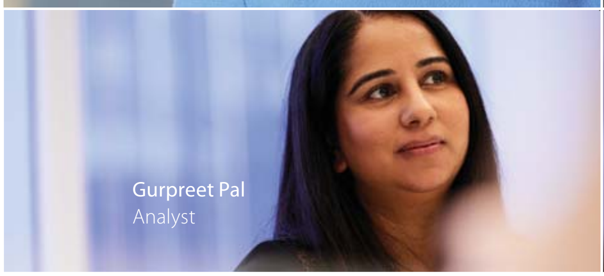
Artisan Partners Sustainable Emerging Markets Team

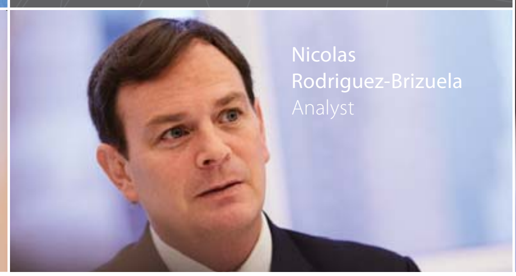
Investment Philosophy and Process

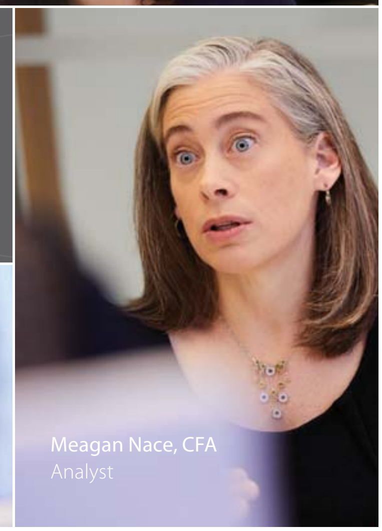
Artisan Sustainable Emerging Markets Strategy

ARTISAN PARTNERS

Our investment team combines the benefits of extensive emerging markets experience with the continuity of a disciplined investment process.







Artisan Partners Sustainable Emerging Markets Team

Overview

The core of our team has been investing together in emerging markets since 1999. All the while, we have applied a consistent investment philosophy and process—a process focused on identifying companies with sustainable competitive advantages and unique access to growth. Our process incorporates extensive financial and strategic analysis, on-the-ground management research, environmental, social and governance (ESG) considerations, and country risk analysis—all combined with our team's first-hand experience in emerging markets.

What Sustainability Means to Us

To us, sustainability means having the ability to endure. It includes, but goes beyond, ESG considerations—it is about businesses making the right strategic choices that bring continuity to their shareholders, employees, customers and the communities around them. Ultimately, we invest in emerging markets because, as a team of people who were born, educated and have spent a large amount of time in these countries, we want to direct capital to companies that can have a long-term positive impact on emerging markets' populations.

A Sustainable Team With Indigenous Perspectives

Sustainability starts with having a team intentionally designed for continuity. The majority of the Sustainable Emerging Markets team has worked together for over 20 years, following a consistent, disciplined approach. We aren't just investment professionals who can work in emerging markets; we are investment experts who live and breathe emerging markets. Our team was designed to foster the cognitive diversity that comes with indigenous perspectives as well as being women-led, as we have since our founding. Our backgrounds give us a passion for and understanding of our chosen markets. We believe our team offers an approach that is meaningfully differentiated within the industry.

The Search for Sustainable Earnings

With the right team in place, we aim to invest in companies capable of enduring the inherent volatility of emerging markets. We look for companies with business models committed to profits as well as progress—companies that can generate sustainable earnings and returns thanks to enduring competitive advantages. We are also determined to identify companies with cultures focused on enhancing long-term shareholder value.

ESG considerations are natural given our focus on sustainability, and we believe companies engaged in harmful activities are unlikely to successfully drive long-term earnings growth. While these factors certainly play a role in our decision-making process, our approach to sustainability is much broader and deeper than solely ESG.

For us, sustainability is about the future and implies success over time. Therefore, we seek companies we believe capable of achieving sustainability through time—that are showing signs of successfully growing and evolving toward it—rather than just identifying companies that have already been successful.

Our focus on the future is a primary reason fundamental research and meeting with people are important to our process. In our experience, third-party sustainability or ESG screens or ratings tend to be backward-looking—whereas investing and progress are about the future. As a result, we do not use negative ESG screens or exclusion lists, nor do we attempt to maximize third-party ESG or sustainability scores. We believe such approaches run the risk of missing out on companies capable of shaping a better future for emerging markets countries and their populations.

Our Investment Philosophy

Our rigorous process is firmly rooted in these core beliefs:

- We believe emerging markets will continue to grow in excess of developed markets over the long term.
- We also expect emerging markets to remain turbulent.

Increased volatility is undoubtedly part of emerging markets investing. Our investment philosophy and process have been tested through various market cycles and environments. This experience gives us the confidence to remain focused during adverse periods. Our emphasis on long-term fundamentals and valuation discipline can result in our performance being out of sync with the market during periods of euphoria or panic. However, in our experience, remaining disciplined is the best way to compound assets over the long term, especially in emerging markets.

Against an inherently volatile backdrop, we look for companies with unique access to growth. We try to avoid companies that aim for short-term, rapid gains since those are rarely sustainable long-term. Instead, we focus on companies that take advantage of a growth opportunity and develop a business model around it, allowing them to translate the growth of today into sustainable growth and enduring earnings over time.

The second quality we look for is a sustainable competitive advantage. Because we know the environment in which these companies operate will change rapidly, we look for companies that have a long-term, defensible competitive advantage—the key to surviving the inevitable crisis times in emerging markets.

Idea Generation

When discussing idea generation, we think it is important to mention what we are looking for—and what we are not trying to accomplish. Our goal is to develop high conviction in a portfolio of stocks well-diversified by country and sector. To do that, we rely on our extensive experience. We also meet with several hundred company management teams every year and maintain a research library of several hundred stocks that have the essential characteristics we seek. We have no desire to develop an opinion about every stock in the investable universe, particularly because many companies lack the advantages we desire. As a result, we do not need analysts on the ground in each market, nor do we need to react to every potential opportunity. To the degree that our stocks, in which we have deep knowledge and conviction, achieve the upside we have estimated, we are highly confident that the portfolio will be well-positioned to deliver superior performance results over the long term.

The bulk of our ideas come from our travels around the world. We meet with hundreds of companies each year and maintain a research library of several hundred stocks with the essential characteristics we seek. We have no desire to develop an opinion about every company in the investable universe

Core Investment Beliefs

We believe that certain companies in emerging markets possess:

- Unique access to potential growth
- Sustainable competitive advantages

Ultimately, we invest in emerging markets because we want to direct capital to companies that can have a long-term positive impact on emerging markets' populations.

The goal of our process is to identify companies that are undervalued relative to their sustainable earnings growth potential.

Financial Analysis

Balance sheet, income statement and cash flow analysis lead to:

- 5-year financial forecast
- Analyst estimates—earnings power, return on equity, book value

as many lack the sustainable competitive advantages we desire. As a result, we do not need analysts on the ground in each market to react to every potential opportunity. Nor do we believe that any screening process could identify in advance the critical characteristics we seek. Nothing can replace our team's regular travel to meet with companies in their natural habitat, observing and interacting with company management, employees, regulators, suppliers, competitors and customers.

Our Investment Process

When we find a company that we think possesses unique access to potential growth and/or a sustainable competitive advantage, we move forward with our process. Our goal is to identify companies that are undervalued relative to their sustainable earnings growth potential.

We define sustainable earnings as sustainable return on equity (ROE). ROE is simple—a function of margins, turnover and leverage. Those are metrics that are familiar to management teams in every market globally. As a result, we can sit down with any company's management and discuss profitability in terms they understand. In doing so, we gain a much deeper understanding of a company's management team and its capabilities. If our analysis gets too complicated, it can preclude a company's management team from those profitability discussions and we miss the opportunity to evaluate the team. Plus, as equity investors, we like companies that focus on profitability from the equity point of view.

To determine an estimate of a company's sustainable ROE, we complete a rigorous financial and strategic analysis, which includes systematic consideration of ESG and country risk factors.

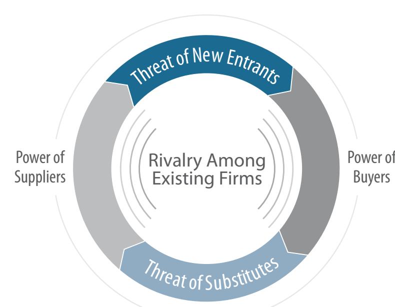
Financial Analysis

We start with a historical financial analysis focused on gaining an understanding of the main drivers of a company's revenues and outlays. It is easy to travel to some emerging markets countries and fall in love with a company's top-line growth story as told by management. But our job is to reconcile that fairytale with reality. Some companies are great at telling their story and growing the top line, but it is often accomplished by blowing out their balance sheets or diluting their shareholders. These are issues you can only find by completing a line-by-line analysis of the company's historical financial statements.

After we complete that analysis, we develop a five-year forecast for each financial statement—balance sheet, income statement, cash flow and ROE breakdown—in an effort to assess the company as a going concern and understand the drivers of its success. We want to buy a company and hold it for the long term. To do that, we need to understand whether the company has a sustainable financial framework for delivering results into the future, and our forecasts assist with that.

Strategic Analysis

Once we have completed our financial analysis and five-year financial forecast, we conduct a Porter's Five Forces competitive analysis, which gives us a framework to assess the industry in which a company competes. We look at a company's buyers, suppliers and competitors, as well as the threat of new entrants and the threat of substitutes. We score each of those factors, which aids in our assessment of a company's sustainability.



For example, take a supermarket in northern Mexico that is executing well in that territory. In isolation, that would be a good story. However, a Porter's Five Forces analysis may indicate that competitors are about to move aggressively into that same territory, which will pressure margins, making the potential investment much less attractive.

Sustainability Assessment

Following our strategic analysis, we thoroughly review the company's sustainability from ESG perspectives, which helps us find companies intent on being good stewards for their shareholders, stakeholders, employees and communities at large. The emerging markets opportunity set is often volatile and opaque, so part of our charge is to identify firms and management teams that recognize their role in navigating volatility and increasing transparency.

For us, incorporating ESG analysis into an investment process is not a recent phenomenon. It's part of understanding the sustainability of a company's earnings, which has always been at the core of our process and philosophy. As the market for incorporating ESG has blossomed around us, access to ESG data has improved. As a result, our ESG analysis has included more and better quantitative elements.

Our sustainability assessment considers a variety of factors we believe have the potential to materially impact a company's sustainable growth potential, including both qualitative and quantitative components:

- Ownership and Board Integrity
  - Board composition
  - Alignment of interests
  - Minority voting rights
  - Historical behavior toward minority shareholders
  - Consistency of dividend policy
- Management Effectiveness
  - Quality and turnover
  - Quality of disclosure
  - Quality of communication
- Environmental
- Social

After a detailed examination of these and other factors, we apply a premium to our estimated target price for companies that exhibit exemplary sustainability practices, while we discount our price targets for those with higher sustainability risk profiles.

We conduct this price-adjustment analysis in lieu of using negative ESG screens. We believe excluding a company simply because it scores poorly on ESG metrics today creates biases and blind spots. Instead, we care about how a company's management acknowledges and addresses the ESG risks it faces, and we care about how a company improves these exposures over time.

Country Risk Assessment

Once we determine an estimate of a company's sustainable earnings, we complete our country risk assessment, another important element of our process in which we evaluate multiple macroeconomic factors that are relevant for each country. We know not all emerging markets face the same risks—

Our goal in assessing sustainability is to estimate the impact certain quantitative and qualitative factors may have on a particular company's long-term growth potential.

Portfolio Construction

We typically own a portfolio of stocks well diversified by country and sector.

Sector and industry weightings are always the result of our bottom-up stock selection process. We make no top-down decisions based on sectors. In terms of country exposure, we believe it is a mistake to make large country bets, especially given the fact that we are bottom-up stock pickers. In our portfolio, we have exposure to a country because we believe those individual stocks deserve to be in the portfolio. If we do not think individual stocks deserve to be in the portfolio, we will not invest in them, which may leave us completely out of a country.

Following are a handful of guidelines and constraints employed to manage the risks inherent in any investment portfolio constructed through fundamental stock selection:

Artisan Sustainable Emerging Markets Strategy

- Typically 70-90 holdings
- Limit +/- 10% of any one country's weighting in the MSCI Emerging Markets Index[1]
- Minimum of $400 million market capitalization[1]
- Typically less than 5% cash
- Maximum position size generally 5%[1]

Based on a model portfolio. [1]Limitations apply at the time of purchase.

they are in different places in their economic, social and political development. Additionally, we believe it is vital to compare a country's risks to its own history, identifying improvements or deterioration over time and how those factors may impact a prospective investment.

Unlike many emerging markets managers, we do not use this analysis to positively or negatively screen countries from a top-down perspective. We believe the most effective way to manage risk is through our bottom-up stock selection process. Importantly, our country risk assessment is not a beauty contest—we are not comparing one country to another (e.g., Thailand versus Mexico). Our goal in assessing country-specific risks is to estimate the impact certain factors may have on a particular company.

For example, the risks associated with a company whose business is primarily exports may be more related to the export countries rather than the company's own country of domicile. Similarly, a vulnerable currency in an exporter's home country may work as an advantage rather than a liability. Finally, many companies are exposed to risk from multiple countries. Our goal is to examine relevant country-specific risks, adjust our expectations for ROE and determine how much we are willing to pay to own each individual company's shares.

Valuation

We apply a straightforward approach to determine a target price for each security. We multiply our sustainable ROE estimate by a company's stated book value, which we take from its financial statements, to calculate the normal earnings per share (NEPS). We then assign a target price-to-earnings (P/E) multiple we are willing to pay for that earnings stream. By multiplying the NEPS by the target P/E, we calculate a target price. We compare the target price to the current market price to determine the estimated upside. Our goal is to buy companies that exhibit at least 20% upside potential at the time of purchase.

We also calculate the weighted average upside of the entire portfolio, which serves as a useful barometer of the broader opportunity set. During a period when prices across the asset class are meaningfully depressed, our average upside across the portfolio may be extremely high. If, for example, our average upside is 100% at a moment in time, a stock candidate showing 20% upside would not be that interesting.

Our focus on target prices leads to a simple sell discipline. We sell stocks when their estimated upside diminishes to a small or negative amount. Ideally, this occurs because a stock appreciates substantially, but sometimes a reassessment of a company's fundamentals or an overall reduction in market sentiment causes us to reduce our sustainable ROE or target P/E, resulting in a lower upside estimate.

Note: Stock appreciation does not automatically result in sales. Each period of growth resulting in a higher book value creates better upside. In addition, we sometimes increase our sustainable ROE or target P/E estimates, which also increases the upside estimate. Although some judgment is applied to the inputs that determine our target price, we are highly disciplined about selling stocks that have little upside and maintaining a portfolio with as much upside potential as possible, consistent with our investment guidelines.

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 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. 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 in Artisan Partners Form ADV, which is available upon request.

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Return on Equity (ROE) is a profitability ratio that measures the amount of net income returned as a percentage of shareholders equity. Earnings per Share (EPS) is the portion of a company's profit allocated to each outstanding share of common stock. Price-to-Earnings (P/E) is a valuation ratio of a company's current share price compared to its per-share earnings. Book Value is the net asset value of a company, calculated by total assets minus intangible assets and liabilities. Competitive Advantage Framework (Porter's Five Forces)—Porter's Five Forces model is used to develop an industry assessment for a company. This framework evaluates the structure of the company's industry by considering the nature of the competition, the balance of power between the company and its suppliers and customers and the elasticity of demand for the company's product versus substitutes. Each element is scored on a five-point scale (the higher being the better). Adapted with the permission of The Free Press, a Division of Simon & Schuster Adult Publishing Group, from COMPETITIVE ADVANTAGE: Creating and Sustaining Superior Performance by Michael E. Porter. Copyright © 1985,1998 by Michael E. Porter. All rights reserved.

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