Emerging Markets Positioning and Opportunities Amid Market Volatility

Artisan Partners Sustainable Emerging Markets Team

PORTFOLIO MANAGER
Viewpoints

March 2020

Maria Negrete-Gruson, CFA
Portfolio Manager

28 Years Investment Experience

Global financial markets have been experiencing sharp drawdowns and extreme volatility. Although the catalysts may be unique—COVID-19 and an oil price war between Saudi Arabia and Russia—the occurrence of such dramatic turns in global financial market and economic conditions is not. Given our focus on long-term sustainable earnings, our portfolio tends to suffer more when the divergence of stock prices and fundamentals is at an extreme.

Our investment philosophy, process and focus on sustainability inherently account for such unpredictable periods. While our portfolio is not immune to these gyrations, we believe we are also in a period of opportunity. We continue to search for companies with sustainable competitive advantages or unique access to growth—characteristics that enable companies to persist through volatility, succeed after the dust settles, and generate alpha over the long term.

As part of the investment team's comprehensive assessment of conditions, we are adjusting each company's target P/E to account for changes to company, country, sector or industry level risks as well as assessing each company's sustainable ROE. In addition, we remain mindful of the need to maintain the portfolio's overall liquidity. As a result of these reviews, we have increased exposure to a handful of current positions and identified potential new opportunities where price declines appear unjustified based on bottom-up fundamentals. In some cases, these dislocations have enabled us to initiate positions in companies with historically out-of-reach valuations. However, as is typical for the team during past bouts of significant volatility, we have not made significant changes to overall portfolio composition.

Long term, we believe COVID-19 could intensify and accelerate several pre-existing trends. Spurred by the US-China trade war, the realignment of global supply chains will likely pick up momentum. COVID-19 is further highlighting the heavy dependence of global supply chains on China and the limited benefits of recent capacity shifting to other parts of Asia. As viable alternatives become more apparent, the process will present varied investment opportunities in both geography and timing.

Chinese companies will likely accelerate investments in technologies such as lasers and robotics, improving productivity and reducing labor intensity. These capital investments will have significant implications for both manufacturers making the investments as well as for companies developing, producing and supplying components for the new technologies. In addition, COVID-19-induced social distancing will likely have a lasting impact on some areas of consumer behavior, including online shopping, telecommuting and media consumption. We entered the current environment with a strong understanding of these trends and feel well-positioned to take advantage of new investment opportunities as they arise.

Turning to the oil price war, the steep drop in oil prices and a COVID-19 induced decrease in global demand are weighing on Russia's economy, currency and financial markets. However, many Russian companies have made meaningful improvements in corporate governance and financial and social sustainability in recent years. We believe our Russian positions have strong financial and operational fundamentals and the types of competitive advantages or access to growth that continue to make them attractive long-term opportunities.

The exercise of predicting market movements in the short term is futile. However, history is full of examples of market inflection points occurring not when "victory" is declared—in this case when COVID-19 has run its course or a medical treatment is distributed around the globe—but when markets deem policy responses adequate and credible to arrest fears of the most negative outcomes. As the markets continue searching for this point, we remain committed to a process that allows us to identify companies that can weather the volatility and downturn, ultimately generating sustainable earnings and long-term alpha.

For more information: Visit www.artisanpartners.com

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 funds 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.

This summary represents the views of the portfolio manager as of 23 March 2020 and is subject to change without notice. While the information contained herein is believed to be reliable, there is no guarantee to the accuracy or completeness of any statement in the discussion. Any forecasts contained herein are for illustrative purposes only and are not to be relied upon as advice or interpreted as a recommendation.

This material is provided for informational purposes without regard to your particular investment needs. This material shall not be construed as investment or tax advice on which you may rely for your investment decisions. Investors should consult their financial and tax adviser before making investments in order to determine the appropriateness of any investment product discussed herein.

Return on Equity (ROE) is a profitability ratio that measures the amount of net income returned as a percentage of shareholders equity. **Price-to-Earnings (P/E)** is a valuation ratio of a company's current share price compared to its per-share earnings. **Alpha** is a quantitative measure of the volatility of the portfolio relative to a designated index.

Artisan Partners Limited Partnership (APLP) is an investment adviser registered with the U.S. Securities and Exchange Commission (SEC). Artisan Partners UK LLP (APUK) is authorized and regulated by the Financial Conduct Authority and is a registered investment adviser with the SEC. APEL Financial Distribution Services Limited (AP Europe) is authorized and regulated by the Central Bank of Ireland. APLP, APUK and AP Europe are collectively, with their parent company and affiliates, referred to as Artisan Partners herein.

Artisan Partners is not registered, authorized or eligible for an exemption from registration in all jurisdictions. Therefore, services described herein may not be available in certain jurisdictions. This material does not constitute an offer or solicitation where such actions are not authorized or lawful. Further limitations on the availability of products or services described herein may be imposed.

In no event shall Artisan Partners have any liability for direct, indirect, special, incidental, punitive, consequential (including, without limitation, lost profits) losses or any other damages resulting from the use of this material.

This material is only intended for investors which meet qualifications as institutional investors as defined in the applicable jurisdiction where this material is received, which includes only *Professional Clients* or *Eligible Counterparties* as defined by the Markets in Financial Instruments Directive (MiFID) where this material is issued by APUK or AP Europe. This material is not for use by retail investors and may not be reproduced or distributed without Artisan Partners' permission.

In the United Kingdom, issued by APUK, 25 St. James's St., Floor 3, London SW1A 1HA, registered in England and Wales (LLP No. OC351201). Registered office: Reading Bridge House, Floor 4, George St., Reading, Berkshire RG1 8LS. In Ireland, issued by AP Europe, Fitzwilliam Hall, Fitzwilliam Pl, Ste. 202, Dublin 2, D02 T292. Registered office: 70 Sir John Rogerson's Quay, Dublin 2, D02 R296 (Company No. 637966).

Australia: This material is directed at wholesale clients only and is not intended for, or to be relied upon by, private individuals or retail investors. Artisan Partners Australia Pty Ltd is a representative of APLP (ARBN 153 777 292) and APUK (ARBN 603 522 649). APLP and APUK are respectively regulated under US and UK laws which differ from Australian laws and are exempt from the requirement to hold an Australian financial services license under the Australian Corporations Act 2001 in respect to financial services provided in Australia.

Bailiwick of Guernsey: The financial services referred to in this material and this document are not being made available in the Bailiwick of Guernsey (Guernsey) to more than 50 persons in Guernsey and the financial services may not be accepted by more than 50 persons in Guernsey.

Canada: This material is distributed in Canada by APLP and/or Artisan Partners Distributors LLC, which conduct activities in Canada under exemptions from the dealer, portfolio manager and investment fund manager registration requirements of applicable Canadian securities laws. This material does not constitute an offer of services in circumstances where such exemptions are not available. APLP advisory services are available only to investors that qualify as "permitted clients" under applicable Canadian securities laws.

For Institutional Investors Only—Not for Onward Distribution

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