What Sustainability Means to Us

Artisan Partners Sustainable Emerging Markets Team

PORTFOLIO MANAGER
Viewpoints

March 2019

Maria Negrete-Gruson, CFA
Portfolio Manager

27 Years Investment Experience

To us, sustainability means having the ability to endure. It includes—but goes beyond—environmental, social and governance (ESG) considerations. More broadly, it entails 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 large amounts of time in these countries, we want to direct capital to companies that can have a long-term positive impact on emerging markets' people.

Taking this type of sustainable approach to emerging markets investing starts with having a team intentionally and thoughtfully designed for continuity. The majority of our team has worked together for over 20 years, following a consistent, disciplined and rigorous approach to seeking sustainable growth opportunities in emerging markets. As such, we consider ourselves much more than highly trained investment professionals who *can* invest and work in emerging markets—rather, we are investment experts who live and breathe the emerging markets opportunity set.

Critical to a team's long-term success is cognitive diversity. A case could be made that this is particularly true in emerging markets, where company specifics are often more challenging to come by than they are in more readily accessible developed markets. It is also relatively easy to become swept up in the stories of emerging markets—the growth opportunities are myriad and highly compelling. But it's critical that investors keep a level head because there are equally ample opportunities to invest in companies that fail to deliver on promises, which can ultimately not only erode capital but also damage the long-term growth prospects for emerging markets citizens. We believe the cognitive diversity that results from our indigenous perspectives as well as the fact that we are women-led—a relative rarity in investing at all, let alone among emerging markets investors—positions us well in a particularly challenging investing environment.

With the right, sustainable team in place, we aim to invest in companies that themselves embody sustainability in a variety of ways.

Business Models

On an individual company basis, sustainability arguably starts at the foundation—with the business model. We seek to avoid companies that are not structured to run sustainably over the long term. On the contrary, our team is committed to allocating capital in fundamentally sustainable ways—which means to businesses that are committed to both profits as well as progress. Profits obtained at the expense of progress are not sustainable in the long term.

Earnings Sustainability

For long-term investors, the earnings sustainability of companies in which they invest should be among their foremost considerations. We are interested primarily in companies capitalizing on the unique growth opportunities in emerging markets, developing a business model around those opportunities, and translating current growth into sustainable earnings over time. We are not seeking growth solely for its own sake today—rather, we are intently focused on identifying growth that can be sustained well into the future. We believe this approach should produce superior results over the long run not only for us as investors, but also for the people living, working and building their lives in those economies.

Competitive Advantages

Another critical quality we look for in the businesses we invest in is a sustainable competitive advantage. Because we know the environment in which these companies operate is constantly evolving, we look for companies that have a *sustainable competitive advantage* in markets where they compete. Good and bad times will necessarily come and go, and we know that in the face of a crisis, the share prices of most stocks will fall. But we believe sustainable competitive advantages are key to a company's ability to survive in times of crisis—because while their competitive advantage might be weakened by the crisis, it is less likely to be destroyed altogether if it has staying power.

Culture Committed to Enhancing Shareholder Value

Inherent in our financial analysis of any company is a thorough assessment of its income statement, balance sheet and statement of cash flows. Our focus is on gaining an understanding of the main drivers of how that company makes and spends its money. Though some companies are great at telling their stories and growing the top line rapidly, sometimes upon closer inspection, an analyst uncovers that the company has achieved that top-line growth at the expense of its balance sheet or by taking on too much debt or by diluting its shareholders. Our process is built to try to avoid such top-line wonders and instead find companies we believe are committed to enhancing long-term shareholder value.

ESG Within the Context of Sustainability

Environmental, social and governance 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 face to face 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 utilize 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.

Conclusion

We do what we do because we care passionately about the people of emerging markets—which, as investors, implies caring about their economies and markets as well, given our belief that economic growth will ultimately lead to better lives and futures for these populations. As a result, we have spent some two decades developing a rigorous approach to investing that simultaneously attempts to leave no stone unturned while avoiding companies not committed to growing sustainably over time. While we recognize emerging markets will likely always be inherently more volatile than developed markets, we believe the rewards over time should likewise be outsized. Furthermore, we believe the effort required to find companies behind which we are interested in putting our capital is eminently worthwhile.

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 material represents the views of the portfolio manager as of 31 Dec 2018 and do not necessarily represent those of Artisan Partners. The views and opinions expressed are based on current market conditions, which will fluctuate and those views are 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.

Environmental, Social, Governance (ESG) criteria is a set of standards for a company's operations that socially conscious investors use to screen potential investors.

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.

Artisan Partners is an independent investment management firm focused on providing high value-added, active investment strategies to sophisticated clients globally. 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. APLP and APUK 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 UK Financial Conduct Authority where this material is issued by APUK. 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#: OC351201). Registered office: Reading Bridge House, Floor 4, George St., Reading, Berkshire RG1 8LS.

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

ARTISAN PARTNERS