



# Artisan Emerging Markets Fund

QUARTERLY  
Commentary

Investor Class: ARTZX | Institutional Class: APHEX

As of 30 September 2018

## Investment Process

We seek to invest in companies that are uniquely positioned to benefit from the growth potential in emerging markets and that possess a sustainable global competitive advantage.

## Sustainable Earnings

We believe over the long term a stock's price is directly related to the company's ability to deliver sustainable earnings. We determine a company's sustainable earnings based upon financial and strategic analyses. Our financial analysis of a company's balance sheet, income statement and statement of cash flows focuses on identifying historical drivers of return on equity. Our strategic analysis examines a company's competitive advantages and financial strength to assess sustainability.

## Risk Analysis

We believe a disciplined risk framework allows greater focus on fundamental stock selection. We incorporate our assessment of company-specific and macroeconomic risks into our valuation analysis to develop a risk-adjusted target price. Our risk-rating assessment includes a review of country-appropriate macroeconomic risk factors to which a company is exposed.

## Valuation

We believe that investment opportunities develop when businesses with sustainable earnings are undervalued relative to peers and historical industry, country and regional valuations. We value a business and develop a price target for a company based on our assessment of the business's sustainable earnings and risk analysis.

## Team Overview

Team experience, continuity and a rigorous investment process are the characteristics that we believe differentiate our team from other emerging markets investment managers. Research analysts have autonomy and ownership of their regions and accountability for the success of their ideas. Our team members bring deep experience and uncommon insight to their respective areas of responsibility.

## Portfolio Management



Maria Negrete-Gruson, CFA  
Portfolio Manager

## Investment Results (%)

As of 30 September 2018	Average Annual Total Returns							
	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception <sup>1</sup>	Inception <sup>2</sup>
<b>Investor Class: ARTZX</b>	<b>-2.77</b>	<b>-10.18</b>	<b>-2.70</b>	<b>15.66</b>	<b>4.72</b>	<b>3.87</b>	<b>-0.64</b>	<b>—</b>
<b>Institutional Class: APHEX</b>	<b>-2.72</b>	<b>-10.05</b>	<b>-2.57</b>	<b>15.68</b>	<b>4.81</b>	<b>4.02</b>	<b>—</b>	<b>4.59</b>
MSCI Emerging Markets Index	-1.09	-7.68	-0.81	12.36	3.61	5.40	1.06	5.83

Source: Artisan Partners/MSCI. Returns for periods less than one year are not annualized. <sup>1</sup>Investor Class inception: 2 June 2008. <sup>2</sup>Institutional Class inception: 26 June 2006.

Expense Ratios (% Gross/Net)	ARTZX	APHEX
Semi-Annual Report 31 Mar 2018 <sup>1,2,3</sup>	1.77/1.46	1.97/1.44
Prospectus 30 Sep 2017 <sup>1,3</sup>	2.15/1.35	2.20/1.20

<sup>1</sup>Reflects a contractual expense limitation agreement in effect through 31 Jan 2019. <sup>2</sup>Unaudited, annualized for the six-month period and reflects a change in the Fund's management fee and expense limit, 1.50% lowered to 1.35% for Investor Class and 1.50% lowered to 1.20% for Institutional Class, effective 21 Feb 2018. <sup>3</sup>See prospectus for further details.

Past performance does not guarantee and is not a reliable indicator of future results. Investment returns and principal values will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than that shown. Call 800.344.1770 for current to most recent month-end performance. Performance may reflect agreements to limit a Fund's expenses, which would reduce performance if not in effect.



### Investing Environment

Q3 proved challenging for emerging markets as many countries readjusted to a spate of macroeconomic woes—including liquidity and currency concerns, as well as the potential for rising global trade barriers. In the face of these headwinds, EM trailed developed markets in Q3 and is behind YTD. From a country standpoint, EM's bottom contributor was China, which has been especially pressured by global trade concerns. Conversely, Taiwan and Brazil were the index's top-contributing countries in Q3.

In addition to trade-related concerns, much emphasis was on liquidity and contagion fears—particularly as several of the perceived fragile markets came under pressure, including Turkey, Argentina and Indonesia, which tend to be more dependent on foreign capital flows. As developed-world monetary policy becomes incrementally tighter, there is growing concern that capital flows will reverse, pressuring these countries.

During the quarter, Turkey took a step nearer autocracy as President Erdogan named himself head of the country's sovereign wealth fund. The central bank finally raised rates—though inflation continued to soar. In rather stark contrast, Argentina came to terms with the IMF relatively swiftly in Q2, improving the likelihood the country will begin recovering sooner than later.

At the sector level, energy was the index's top contributor on the strength of rising Brent crude prices. The newly created communication services and consumer discretionary sectors were the index's bottom contributors—the former weighed down by the combination of Tencent's heavy representation and negative quarterly returns.

### Performance Discussion

Our portfolio trailed the MSCI Emerging Markets Index in Q3 and is behind YTD. Though we are always disappointed by underperformance, we were not surprised by Q3's results given our positioning—namely our exposure to some of the more embattled EM countries. In Q3 specifically, our exposure to Turkey and Argentina was a source of relative weakness.

It's worth bearing in mind that our aim is distinctly not to deliberately avoid potentially vulnerable geographies. Rather, our portfolio is constructed with an eye to long-term opportunities and what we believe to be the best representation of the full EM opportunity set. We are by no means ignoring the heightened country risk of a Turkey or an Argentina. Nor are we assuming a binary outcome—i.e., a macro outcome that is good or bad. Rather, our experience has taught us to expect there can be a range of outcomes, and we incorporate those probabilities into our estimates of upside potential. This doesn't necessarily preclude near-term pain, as we saw in some cases in Q3; but in our view, it better positions us over the long term to capture what we believe to be the best possible representation of the emerging markets opportunity set.

Against this backdrop, unsurprisingly, several of our Argentine and Turkish holdings were among our bottom individual relative contributors—namely, Argentine bank Grupo Supervielle and Turkish bank Turkiye Sinai Kalkinma Bankasi (TSKB). We believe both banks remain well-positioned relative to their domestic markets and anticipate they will recover as the macroeconomic turmoil in their respective countries subsides in coming quarters.

At the sector level, our health care holdings—especially in China—were among our bottom relative contributors, including Sino Biopharm and China Traditional Chinese Medicine. Both holdings sold off sharply, though in line with the sector, as the Chinese government announced a pilot program aimed at lowering costs through a single-payer approach. As a result, the market expects drug companies may face significant top-line pressures. However, in our view, these companies may also be able to lower their selling costs, which could mean the bottom line is less impacted than the market assumes. Long term, we remain constructive on both holdings and believe these concerns likely prove relatively short-lived.

On the positive side, we benefited in Q3 from not owning Tencent, whose shares were pressured by meaningful competitive pressure from fellow Chinese e-commerce giant Alibaba. Of our portfolio holdings, Samsung Biologics and Zhuzhou were among our top relative contributors in Q3. Shares of Samsung Biologics have bounced back following allegations of accounting fraud, levied earlier in the year. While the investigation's outcome remains unknowable, we maintain our conviction in the company's best-in-class manufacturing capabilities and its strong pipeline of marketable biosimilars. Chinese train-borne electrical systems provider Zhuzhou has been a long-term holding, and we are constructive on its positive positioning relative to ongoing infrastructure spending in China in coming quarters.

### Portfolio Activity

Third-quarter volatility provided an opportunity to introduce two holdings with which we've long been familiar at what we believe are attractive valuations—Copa Holdings and Phoenix Mills. Copa Holdings is a Panamanian airline operator. We believe it is run by a capable management team and like its efficient business model, whereby it consolidates less-traveled routes and directs them through the company's Panama hub. Attractively, Copa Holdings faces relatively little competition on the majority of its routes. The stock sold off in Q3 on a combination of factors, including EM contagion concerns as well as high oil prices and weaker EM currencies, which weigh on Copa's earnings. However, we anticipate these two factors will adjust over time—either oil prices will need to adjust lower, or currencies will appreciate, normalizing Copa's backdrop. We believe the stock is attractively valued, so we capitalized on Q3 weakness to take a position in anticipation of normalizing earnings in the period ahead.

Phoenix Mills, a leading mall developer, has long been a darling of Indian markets—which has historically put it out of our range for valuation reasons. We have long believed it had sustainable earnings growth and operated a solid business model in a very compelling Indian retail market. However, given its historically high multiple, we didn't see sufficient upside to warrant an investment. Q3's volatility provided us an opportunity, however, to initiate a position at what we found a compelling valuation.

Conversely, Q3's volatility and macroeconomic backdrop led us to make some adjustments—particularly relative to our holdings in Turkey. We sold Akbank in Q3, consolidating our exposure in the aforementioned TSKB, in which we see a relatively more attractive opportunity once the current crisis subsides.

### Perspective

We don't anticipate a near-term end to EM volatility. The ongoing trade war seems set to drag on for at least several more quarters—implying an accompanying adjustment period for EM, which in some specific cases may be painful. We also don't anticipate a meaningful reversal of developed-world monetary policy such that massive amounts of new liquidity flood into EM. Positively, adjustments are already underway in some pressured countries, such as Argentina, where the IMF is helping provide a floor to the currency that should allow the country to begin rebuilding from there.

While it is possible contagion takes hold and other countries face similar challenges in the coming quarters, for now, we believe an end is coming into sight for the most acute crises. Helping along this relatively rapid adjustment period (relative to historical instances of similar crises) have been free-floating exchange rates around EM, which have allowed struggling countries' currencies to rapidly reflect their new domestic reality. Though this undoubtedly causes pain for citizens of these countries—Turks have very quickly found themselves meaningfully poorer as the lira has deteriorated—these countries are simultaneously positioned thanks to their free-floating currencies to capitalize on their newfound status as relatively cheaper markets. Whether they capitalize via increased exports, tourism or something else remains to be seen—but we believe it will be important for these troubled countries to capitalize on their extremely affordable status to begin rebuilding their domestic economies.

Positively, we believe most negative expectations about EM countries are largely reflected in valuations. Further, we believe the challenging backdrop has created a positive mindset among individual companies—incentivizing them to improve their relative positioning on their own, rather than relying on a rescue from increased global liquidity, lower US rates from the Fed or other exogenous factors. Rather, they are being forced to examine what steps they can take to divest debt, reallocate capital and preserve and even enhance their profitability. Consequently, despite a cloudy macroeconomic outlet, we see some positive things happening at the stock level. Further, ROEs among many EM companies are rising, accompanied by a nice valuation gap relative to developed markets counterparts.

Regardless of the macroeconomic environment, we will continue our unique, indigenous approach to investing in emerging markets, traveling the world to meet not only with management teams for the portfolio's current investments, but also with potential candidates for future investment. We continue to find interesting companies around the globe which possess the compelling combination of unique access to emerging markets growth and sustainable competitive advantages. We will remain focused on our disciplined approach to building a portfolio with attractive upside potential that we believe is reflective of the full emerging markets opportunity set.

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For more information: Visit [www.artisanpartners.com](http://www.artisanpartners.com) | Call 800.344.1770

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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.

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.

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.

This summary represents the views of the portfolio managers as of 30 Sep 2018. Those views may change, and the Fund disclaims any obligation to advise investors of such changes. For the purpose of determining the Fund's holdings, securities of the same issuer are aggregated to determine the weight in the Fund. The holdings mentioned above comprised the following percentages of the Fund's total net assets as of 30 Sep 2018: Zhuzhou CRRC Times Electric Co Ltd 2.4%, Samsung Biologics Co Ltd 2.1%, Sino Biopharmaceutical Ltd 1.9%, China Traditional Chinese Medicine Holdings Co Ltd 1.3%, Turkiye Sinai Kalkinma Bankasi AS 0.9%, Grupo Supervielle SA 0.8%, Copa Holdings SA 0.6%, The Phoenix Mills Ltd 0.4%. Securities named in the Commentary, but not listed here are not held in the Fund as of the date of this report. Portfolio holdings are subject to change without notice and are not intended as recommendations of individual securities. All information in this report, unless otherwise indicated, includes all classes of shares (except performance and expense ratio information) and is as of the date shown in the upper right hand corner. This material does not constitute investment advice.

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