Artisan Sustainable Emerging Markets Strategy

QUARTERLY
Commentary

As of 30 September 2022

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 focuses on identifying historical drivers of return on equity, and our strategic analysis examines a company's competitive advantages and financial strength.

Sustainability Assessment

We believe a company's long-term direction and degree of change across multiple environmental, social and governance ("ESG") metrics are important indicators of a company's sustainable growth potential. Our sustainability assessment has incident-based and empirical components to evaluate a company's historical, current and future potential behavior. We use a proprietary scoring system for the incident-based and empirical components of the assessment, which informs the team's view of a company's target price.

Risk Analysis

We believe a disciplined risk framework allows greater focus on fundamental stock selection. We incorporate our assessment of company-specific, sustainability and country-appropriate macroeconomic risk factors into our valuation analysis.

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 based on its sustainable earnings and our 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.

Investment Team

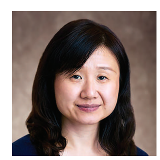

Maria Negrete-Gruson, CFA
Portfolio Manager


Meagan Nace, CFA
Analyst


Chen Gu, CFA
Analyst


Nicolas Rodriguez-Brizuela
Analyst


Gurpreet Pal
Analyst


Jessica Lin, CFA
Analyst

Investment Results (% USD)

			Average Annual Total Returns				
As of 30 September 2022	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception[1]
Composite — Gross	**-11.58**	**-34.26**	**-33.62**	**-3.58**	**-1.78**	**2.13**	**3.75**
Composite — Net	**-11.77**	**-34.72**	**-34.24**	**-4.52**	**-2.74**	**1.10**	**2.68**
MSCI Emerging Markets Index	-11.57	-27.16	-28.11	-2.06	-1.81	1.05	3.41

Annual Returns (% USD) 12 months ended 30 September

	2018	2019	2020	2021	2022
Composite — Net	**-2.28**	**2.31**	**10.20**	**20.13**	**-34.24**

Source: Artisan Partners/MSCI. Returns for periods less than one year are not annualized. [1]Composite inception: 1 July 2006.

Past performance does not guarantee and is not a reliable indicator of future results. Current performance may be lower or higher than the performance shown. Composite performance has been presented in both gross and net of investment management fees.

Investment Risks: 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 near the back of this document, which should be read in conjunction with this material.

Portfolio Discussion

It was another difficult quarter for global equities, and emerging markets were no exception. Emerging markets continued to face inflation pressures, economic growth concerns, tighter financial conditions and currency weakness. India and Brazil were the benchmark's top contributors in Q3, while China was the primary detractor.

Our portfolio trailed the MSCI Emerging Markets Index in Q3, mostly due to macroeconomic headwinds in China, where the country's zero-COVID policy has led to severe travel restrictions, production shutdowns, supply chain pressures and an overall sense of uncertainty. Although our portfolio is underweight China, we are bottom-up investors, so our relative performance (positive or negative) tends to be driven by stock selection. It was therefore no surprise that our relative underperformance was driven by weakness among a few Chinese positions. Our largest relative detractors in Q3 included China Traditional Chinese Medicine, Sino Biopharmaceutical and Estun Automation.

Traditional Chinese medicine remains very popular in China. Granules is a major subset of the traditional Chinese medicine market, and the granules industry has been under pressure due to industry standardizations recently implemented by the Chinese government. There are several hundred granules used in traditional Chinese medicine, and the government is in the process of identifying one manufacturer's formula for each granule and making that formula the industry standard—essentially requiring all other manufacturers to follow the same formula for that granule. Our portfolio holding, China Traditional, is China's largest manufacturer of granules, and its share price has come under pressure due to this increased government oversight. When the government selects another manufacturer's formula as the industry standard for a granule, China Traditional endures increased production costs and a write-down of its intellectual property. The good news, however, is that the government has already identified China Traditional's formula as the standard for roughly half the granules it has standardized thus far, and we expect many more of the company's formulas to become industry standards. We also expect this period of heightened regulation to lead to industry consolidation, ultimately allowing China Traditional to increase market share and strengthen its competitive position.

Sino Biopharmaceutical is a Chinese diversified pharmaceutical company with leading positions for hepatitis B and other liver diseases, plus a strong pipeline of oncology drugs. Sino Biopharmaceutical has recently made a series of licensing and M&A deals, some of which have faced delays due to regulatory review. While the ramp-up for some of its new drug sales has been slower than expected, we remain attracted to the company's impressive drug pipeline, investment in research and development, and subsequent sustainable, long-term earnings potential.

Estun Automation, a leading domestic Chinese robot producer, also experienced pressure in Q3. Estun's performance issues were related to its production unit in Germany. The war in Ukraine has disrupted Estun's supply chain for its Germany-based operations, and the company was unable to fulfill orders in a timely fashion. However, Estun is now substituting these parts from Germany with parts from China, and we believe the company will ultimately deliver on its orders, albeit on a delayed schedule. Overall, we have been impressed with Estun's ability to manage the pandemic—increasing prices and cutting costs, all while weathering supply chain disruptions. We therefore have confidence in the company's ability to overcome what we believe will prove a short-term production obstacle.

MercadoLibre, ICICI Bank and E Ink were among our top relative contributors in Q3. MercadoLibre, Latin America's leading e-commerce platform, continues to show strong fundamentals while executing well across all its segments (i.e., logistics, data, advertising and lending). As the e-commerce community in Latin America continues to expand, the company is performing in line with management's expectations, and we expect MercadoLibre to continue to deliver gradual but steady margin gains over the next few years.

ICICI Bank, the largest private sector bank in India, is benefiting from resilient loan activity and asset quality. The company has also focused on developing its digital banking platforms and small business solutions. We remain attracted to its healthy balance sheet and strong capital position. We also like that ICICI has been consolidating its loan book to increase focus on profitability and balance sheet growth.

E Ink is a Taiwan-based producer of e-paper technology, used in e-readers such as Amazon's Kindle, and electronic shelf label (ESL) systems, used to display product pricing on retail shelves. E Ink's ESL systems have been the company's main growth drivers in recent years as ESL adoption has picked up globally. ESL provides many benefits to retailers by simplifying and streamlining pricing management and allowing for dynamic pricing. We believe E Ink will continue to benefit from global ESL adoption over the long term.

Portfolio Activity

No matter the market environment, valuation is an important part of our investment process—we always seek companies with sustainable growth characteristics trading at compelling valuations. Amid the market weakness, some companies we have been following became more attractive, offering a greater degree of upside potential. One of the new positions we added in Q3 was MTN Group.

MTN Group, a South Africa-based multinational telecommunications group operating in Africa and the Middle East, has simplified its business over the last few years. It recently sold its tower business, and it plans to exit Middle Eastern countries like Iran and Afghanistan due to the complex nature of operating in those markets. We think those moves will not only reduce operating risk but also improve the company's ESG profile—an area in which investors have historically penalized MTN. We have always given MTN credit for providing telecom services across Africa, thereby enabling millions of Africans to start businesses, connect with family and benefit from financial inclusion through MTN's spread of mobile money. We like the management team's increasing focus on simplification. While it will certainly take some years to execute, we believe this simplification will ultimately allow the company to focus on opportunities in underdeveloped markets such as Ghana and Nigeria, where data and mobile money still have very long runways for growth.

Meanwhile, we exited our position in Fomento Economico Mexicano (FEMSA) in Q3. Contrary to management's indications that the company has been looking to simplify its corporate structure, it recently acquired Valora, one of Europe's largest convenience store chains. We felt this acquisition further complicated FEMSA's corporate and operating structure, and we found the stock had limited upside once we adjusted its target valuation to account for this increased governance risk. We exited this position with the purpose of redeploying capital into this quarter’s new positions and higher conviction existing positions.

Perspective

Emerging markets economies may continue to face challenges in Q4. The war in Ukraine has continued for over six months, escalating tensions between Russia on one side and Europe and the US on the other side. We also see economic headwinds from elevated commodity costs, rising interest rates, currency market volatility and signs of slower global growth.

If these challenges persist, they will likely sharpen demand among long-term investors for companies with the established abilities to generate sustainable growth and enduring earnings. In our opinion, those abilities are more prevalent among companies that have unique access to growth and/or a long-term, defensible competitive advantage.

From a bottom-up perspective, we believe there is significant upside potential across parts of emerging markets given the combination of weak equity market conditions, generally positive corporate financial health and sustainable growth opportunities still intact for many companies. Further, we believe the portfolio’s overall upside potential remains above average.

Examples within the portfolio include e-commerce companies and banks. Some e-commerce companies have competitive advantages (e.g., price, logistics and scale) over many traditional retailers, and we believe banks will continue to benefit from the rising rate environment.

In addition, our team is exploring new opportunities in the Middle East. While we do not have a specific timeline regarding investments in the Middle East, we recently returned from a research trip to the region. We are also evaluating potential opportunities in China as the country begins to reopen following its zero-COVID policies.

As always, our goal is to develop a high-conviction portfolio that is well diversified across both industry and country. To do that, we rely on our extensive experience built upon extensive travel. We 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.

Our travel came to a halt during the height of the pandemic. We pivoted our management meetings to the virtual environment, and that worked well, especially since we were able to rely heavily on our extensive personal experience and time spent in emerging markets. Nevertheless, our team has been excited to get back on the road.

Travel has long been an important way for us to build strong relationships with management teams, to see companies up close and to better understand local markets. As restrictions have eased, we have ramped up our international travel. So far this year, we have visited over a dozen countries, including Vietnam, South Korea, Saudi Arabia and Mexico. We are glad to be back to meeting companies in person in their countries and visiting their sites and operations. Our team members have several trips planned in Q4, including visits to South Africa, Brazil and Kenya.

For more information: Visit www.artisanpartners.com

Investment Risks: Non-diversified portfolios may invest larger portions of assets in securities of a smaller number of issuers and performance of a single issuer may have a greater impact to the portfolio's returns. 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. These risks, among others, are further described in Artisan Partners Form ADV, which is available upon request.

Unless otherwise indicated, the Artisan Strategy characteristics relate to that of an investment composite or a representative account managed within a composite. It is intended to provide a general illustration of the investment strategy and considerations used by Artisan Partners in managing that strategy. Individual accounts may differ, at times significantly, from the reference data shown due to varying account restrictions, fees and expenses, and since-inception time periods, among others. Where applicable, this information is supplemental to, and not to be construed with, a current or prospective client's investment account information. References to individual security performance relate to a representative account in the composite. Individual holding periods may differ.

For the purpose of determining the portfolio's holdings, securities of the same issuer are aggregated to determine the weight in the Strategy. The holdings mentioned above comprised the following percentages of a representative account within the Artisan Sustainable Emerging Markets Strategy Composite's total net assets as of as of 30 Sep 2022: China Traditional Chinese Medicine Holdings Co Ltd 1.7%; E Ink Holdings Inc 4.1%; Estun Automation Co Ltd 2.7%; ICICI Bank Ltd 4.0%; MercadoLibre Inc 2.7%; MTN Group Ltd 1.2%; Sino Biopharmaceutical Ltd 2.4%. As of 3 Mar 2022, Russian holdings are valued at zero. Securities named in the Commentary, but not listed here are not held in the portfolio as of the date of this report. Portfolio holdings are subject to change without notice and are not intended as recommendations of individual securities.

Securities referenced may not be representative of all portfolio holdings. Securities of the same issuer are aggregated to determine a holding's portfolio weight. Portfolio statistics calculations exclude outlier data and certain securities which lack applicable attributes, such as private securities. Artisan Partners may substitute information from a related security if unavailable for a particular security. This material is as of the date indicated and is subject to change without notice. Totals may not sum due to rounding.

Attribution is used to evaluate the investment management decisions which affected the portfolio's performance when compared to a benchmark index. Attribution is not exact, but should be considered an approximation of the relative contribution of each of the factors considered.

Net-of-fees composite returns were calculated using the highest model investment advisory fees applicable to portfolios within the composite. Fees may be higher for certain pooled vehicles and the composite may include accounts with performance-based fees. All performance results are net of commissions and transaction costs, and have been presented gross and net of investment advisory fees. Dividend income is recorded net of foreign withholding taxes on ex-dividend date or as soon after the ex-dividend date as the information becomes available to Artisan Partners. Interest income is recorded on the accrual basis. Performance results for the Index include reinvested dividends and are presented net of foreign withholding taxes but, unlike the portfolio's returns, do not reflect the payment of sales commissions or other expenses incurred in the purchase or sale of the securities included in the indices.

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.

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The Sustainable Industry Classification System (SICS®) is the exclusive intellectual property of Sustainability Accounting Standards Board (SASB). SICS is intended to group companies based on their shared sustainability-related risks and opportunities.

This summary represents the views of the portfolio manager as of 30 Sep 2022. Those views and portfolio holdings are subject to change and Artisan Partners disclaims any obligation to advise investors of such changes. The discussion of portfolio holdings does not constitute a recommendation of any individual security.

Upside potential reflects the opinions of the Artisan Partners Sustainable Emerging Markets Team based on an analysis and estimates of the potential for future appreciation of individual portfolio securities by the financial markets. Securities may be impacted by downside pressures, and this estimation is not intended to reflect a projection of future portfolio or security returns. Diversification within a portfolio does not guarantee profit or protect against loss.

Return on Equity (ROE) is a profitability ratio that measures the amount of net income returned as a percentage of shareholders' equity.

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