



# Artisan Emerging Markets Local Opportunities Strategy

QUARTERLY  
Commentary

As of 31 December 2023

For Institutional Investors—Not for Onward Distribution

## Investment Process

We employ in-depth fundamental research and robust operational capabilities across a broad opportunity set to uncover knowledge gaps that can lead to idiosyncratic opportunities with compelling risk-adjusted return potential.

## Organizational Structure

We have a flat and collaborative organization where portfolio managers and analysts communicate daily and share the responsibility of idea generation. Portfolio managers and analysts determine their own focus areas and pursue them from an idea generation perspective. Trading and implementation is embedded within the investment team, as trading capabilities and infrastructure are considered important components of our investment process.

## Idea Generation Through Broad Investment Universe

Our team covers a broad spectrum of global markets comprising investable assets across more than 100 countries. We constantly perform fundamental country research and monitor financial markets in order to understand each countries' policy environments and how important policy moments may alter their investment environment. Our corporate analysis includes decomposing yields and examining corporate liquidity and solvency risks. We integrate environmental, social and governance (ESG) analysis at the country and corporate levels.

## Portfolio Implementation

We analyze investment opportunities from a risk factor perspective—the forces that drive securities and instruments prices. The investment team and trading and implementation team work together to consider which instruments may provide optimal risk-adjusted returns. The trading and implementation team expands our investment universe by understanding and overcoming investment barriers.

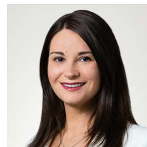
## Team Overview

We are a seasoned investment team with strong continuity across decision makers. Our group's core has been together for more than 10 years prior to its evolution at Artisan Partners, and our group's leadership has been investing in emerging markets since 2005. Our coverage areas are generally defined geographically, with some PM/Analysts and research associates focused on corporates.

## Portfolio Management



Michael A. Cirami, CFA  
Portfolio Manager



Sarah C. Orvin, CFA  
Portfolio Manager

## Investment Results (% USD)

As of 31 December 2023	Average Annual Total Returns						
	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception <sup>1</sup>
<b>Composite—Gross</b>	<b>8.19</b>	<b>16.16</b>	<b>16.16</b>	—	—	—	<b>14.05</b>
<b>Composite—Net</b>	<b>8.00</b>	<b>15.36</b>	<b>15.36</b>	—	—	—	<b>13.24</b>
J.P. Morgan GBI-EM Global Diversified Index (USD)	8.07	12.70	12.70	—	—	—	11.12

Annual Returns (% USD) Trailing 12 months ended 31 December	2019	2020	2021	2022	2023
<b>Composite — Net</b>	—	—	—	—	<b>15.36</b>

Source: Artisan Partners/J.P. Morgan. Returns for periods less than one year are not annualized. <sup>1</sup>Composite inception: 1 August 2022.

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.



## Performance Discussion

The portfolio trended higher in Q4 as risk assets rallied. The portfolio trailed the J.P. Morgan GBI-EM Global Diversified Index for the quarter but is ahead of the index for calendar year 2023. The index returned 8.07% for Q4 and 12.70% for the calendar year.

## Investing Environment

After two consecutive years of negative fixed income returns, 2023 was stacking up to be a positive, but lackluster, year until Q4. Signs of moderation in the labor market and favorable inflation prints drove a departure from the higher-for-longer outlook on rates in the final two months of the year. The possibility of a soft landing came back into view, and the market began pricing in expectations for rate cuts in 2024. The 10-year US Treasury yields dropped by more than 100bps—coincidentally ending the year only a few basis points from where they started it—after briefly touching 5% in October. Against this backdrop, credit spreads tightened, the US dollar weakened, and risk assets, including emerging markets debt, soared.

Inflation continued to ease throughout the quarter, which prompted developed market central banks to hold rates steady, and many have indicated they are at or near the end of their rate hiking cycles. The Fed branched off from its peers when it delivered a more dovish outlook for rates at its December meeting, which included forecasting multiple rate cuts in 2024. This is at odds with its counterparts across the Atlantic, who remain reticent to declare victory against inflation. The ECB and BOE continue to push back against rate-cutting speculation and are stern that their work is not done yet. The Bank of Japan is the clear outlier, only just beginning its tightening cycle.

At the other end of the spectrum, many emerging markets central banks are well into their rate-cutting cycles, though dispersion within the cohort persists. Emerging markets countries reacted quickly to the spike in inflation following the COVID-19 pandemic and employed tight monetary and fiscal policy to keep inflation contained. Latin American and Eastern European countries led the pack with Brazil, Peru, Chile, Hungary and the Czech Republic all delivering rate cuts during the quarter. Inflation in many of these countries has even returned to its targeted range. In contrast, Angola, Kenya and Turkey all raised rates throughout the quarter. Indonesia unexpectedly hiked rates after foreign currency reserves declined at a historic pace.

US Treasuries provided a strong backdrop for risk assets in Q4, but local events across the globe continued to drive idiosyncratic returns. Currency performance for the quarter was generally positive as expectations for Fed rate cuts led to a weaker US dollar and stronger emerging markets currencies. In Colombia, high interest rates, declining imports and strong tourism supported the peso, which ended the year up by more than 25%. Thai local bonds rallied on the heels of cooling inflation and a recovering tourism sector. The Mexican economy has remained resilient, in part thanks to nearshoring, and seen renewed investor interest, which has supported a strong peso. In Poland, the election of a new pro-EU coalition government supported a strong zloty and lifted its local debt. Elsewhere, in Turkey, the lira declined after President Erdogan

won re-election earlier in the year and unexpectedly shifted toward more orthodox monetary policies and aggressively raised rates.

Emerging markets assets were at the mercy of movements in US Treasury yields for most of the year but remained resilient despite the uncertain macro environment. The outbreak of war in Israel at the beginning of Q4 added to the already precarious geopolitical environment. The EMsights team expects this landscape of elevated volatility and geopolitical uncertainty to continue into 2024, creating an environment that is ripe for active management and favors fundamental research.

## Portfolio Positioning

The portfolio continues to be conservatively positioned given repricing events during Q4 and the uncertain geopolitical environment. Portfolio duration is slightly underweight duration versus the J.P. Morgan GBI-EM Global Diversified Index. The portfolio is underweight local rates exposure in Africa and Asia, where inflation remains elevated and local political uncertainty continues to dominate headlines. Meanwhile, it is overweight local rates in Latin America, where inflation continues to cool. The portfolio is long currencies across regions, with the largest allocation to Eastern European currencies, where higher real rates present attractive opportunities. Throughout Q4, the portfolio increased exposure to sovereign credit in countries with improving fundamental stories and poised for upswings, specifically in Latin America.

In calendar year 2023, the top contributing countries to returns for the J.P. Morgan GBI-EM Global Diversified Index were Mexico, Brazil and Colombia. Top detracting countries were Turkey, Egypt and the Philippines.

The team continues to search for countries with improving storylines where market prices are not fully reflecting fundamentals. The global economy will face challenges in 2024, but there are several tailwinds that are likely to keep the emerging markets debt outlook strong. Expectations for declining inflation and fiscal consolidation in emerging markets will support the asset class, as well as monetary support from the official and private sectors. We believe sovereign defaults remain an ever-present risk and geopolitical tensions will create exploitable volatility events. Additionally, the upcoming year will be one of the largest election years on record, presenting ample opportunities for reforms to be made across the developed and emerging worlds.

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**Investment Risks:** The value of portfolio securities selected by the investment team may rise or fall in response to company, market, economic, political, regulatory or other news, at times greater than the market or benchmark index. 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 and less developed markets, including frontier markets, and 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. Fixed income securities carry interest rate risk and credit risk for both the issuer and counterparty and investors may lose principal value. In general, when interest rates rise, fixed income values fall. High yield securities (junk bonds) are speculative, experience greater price volatility and have a higher degree of credit and liquidity risk than bonds with a higher credit rating. Use of derivatives may create investment leverage and increase the likelihood of volatility and risk of loss in excess of the amount invested. 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.

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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.

J.P. Morgan GBI-EM Global Diversified Index is an index of local-currency bonds with maturities of more than one year issued by EM governments. 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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This summary represents the views of the portfolio manager as of 31 Dec 2023. 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.

Notional value represents the portfolio's exposures based on the economic value of investments by adjusting for derivatives exposure to the market value of the contract's underlying security and accounts for the sensitivity to changes in price of the underlying security. In comparison, measuring the exposure of a derivative contract at market value or notional value can understate or overstate, respectively, the economic exposure and risk. This estimate of portfolio exposure is only an approximation of the portfolio at a point in time.

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