



# Artisan Developing World Fund

QUARTERLY  
Commentary

Investor Class: ARTYX | Advisor Class: APDYX | Institutional Class: APHYX

As of 30 September 2023



Portfolio Management  
Lewis S. Kaufman, CFA

Dear Fellow Shareholder:

## Market Backdrop

The Artisan Developing World Fund (Investor Class) returned -7.31% for the quarter ended September 30, 2023, versus -2.93% for the MSCI Emerging Markets Index (all returns in USD unless stated otherwise). Since June 30, 2015, the Artisan Developing World Fund has returned 74.89% cumulatively, versus 19.73% for the MSCI Emerging Markets Index. Markets peaked in late July, as the Fitch US credit downgrade seemed to reignite risk aversion in the bond markets after a period of disinflation earlier in the year. Labor market slack in July (reported in August) and moderating core inflation readings suggested a continuation of disinflationary trends, but this data was summarily overwhelmed by disappointing headline inflation numbers and labor market unrest. Government shutdown negotiations in the US, indications that Japan will tolerate higher bond yields, an active US debt issuance calendar, and changing foreign buying patterns of US Treasuries may have also aggravated bond markets. This backdrop was punctuated by a revised Fed dot plot in September, which underscored the potential for persistently high policy rates and a resilient US economy. Emerging country indices were not immune to these developments and declined in line with world markets, inclusive of a 44bps decline in the MSCI currency index as the dollar strengthened. Indeed, EM central banks find themselves increasingly constrained by Fed policy as visible in Poland's equity market declines following surprise rate cuts; emerging country rate differentials are in some cases approaching record lows and can pressure portfolio flows and inflation outlooks. The United Arab Emirates was a standout market during the quarter (+6.11%), due to higher oil prices (post Saudi and Russian production cuts and export controls) and a dollar-linked currency. India (+2.72%) also performed well as India chaired the G20, President Modi visited the US, and "China + 1" investments continued to materialize. China also performed relatively well (-1.94%), especially in the context of disappointing economic data and a weak renminbi; improved policy impetus, efforts to stabilize economic relations with the US, and modest investor positioning were likely mitigating factors. Weaker markets included Taiwan (-7.38%) and Korea (-6.62%) perhaps due to a combination of economic linkages, geopolitical developments, and currency weakness.

## Contributors and Detractors

Top contributors to performance for the quarter included Indian online travel company MakeMyTrip, cyber security company CrowdStrike, global online travel marketplace Airbnb, Chinese health care services company Wuxi Biologics, and Latin American

marketplace MercadoLibre. MakeMyTrip benefited from strong domestic travel demand in India against a relatively fixed cost structure, and from an improved competitive backdrop that has allowed it to accelerate profitability. CrowdStrike benefited from the resilience of cybersecurity budgets, an increasingly challenging outlook for legacy and smaller next-gen peers and excitement around its platform and artificial intelligence capabilities. Airbnb again defied fears about weaker travel demand as it experienced continued recovery in cross-border and urban nights and resilient pricing trends, though travel volumes remain mixed. Wuxi Biologics rebounded after reporting an acceleration in new project additions following a tepid start to the year, and experienced a growing contribution from late-stage and commercial projects. MercadoLibre rose as a result of continued share gains across key markets and supportive Brazilian regulations aimed at creating a level playing field in cross-border e-commerce.

Bottom contributors to performance for the quarter included global payments leader Adyen, Southeast Asian e-commerce and gaming platform company Sea, global beauty product company Estee Lauder, French luxury goods group LVMH, and Dutch semiconductor equipment producer ASML. Adyen fell after reporting weaker-than-expected 1H23 results, as North American volume faced competitive pricing headwinds and management maintained sizeable investment plans for 2023. Sea declined after announcing its ambition to pivot back toward growth, causing investors to question its profitability trajectory and competitive position; Sea benefited late in the quarter from favorable regulatory developments in key market Indonesia that may impede competition from TikTok. Estee Lauder fell due to ongoing inventory destocking in Asian retail travel and recent Chinese government actions targeted at the daigou channel, both of which impacted retail sales in the Hainan duty-free channel. LVMH declined amid growing concerns about a normalization in American and European entry-level luxury demand and the potential impact of a weaker macro environment in China. ASML declined due to ongoing weakness in leading-edge extreme ultraviolet (EUV) orders, uncertainty around sustainability of lagging-edge deep ultraviolet (DUV) demand, and media reports of further potential restrictions on exports to Chinese customers.

## Market Outlook

We have in recent quarters broadened our economic framework to incorporate the concept of real per capita GDP increases as a proxy for growth in the emerging country middle class. Historically, such increases have been most pronounced in China, reflecting productivity improvements and growth in the capital stock. While GDP growth is now slowing in China, it is worth noting that the level of per capita GDP has compounded at astonishing rates. Combined with population size, China now represents a substantial latent pool of domestic demand, at levels of income consistent with services demand beyond simple basic needs. It is also worth noting that savings rates in China, though below peak levels, are

still among the highest in the world. Thus, in China's case, prospective real per capita GDP growth (which is a good proxy for GDP growth since China's population is no longer growing) might be less important than savings mobilization. In contrast to much of the emerging world, China's challenge is not affordability; China must focus on confidence and the propensity to consume. We watched with interest as the government introduced tax breaks for childcare. Combined with attempts to stabilize the real estate market, perhaps there can be scope for optimism. This is not to minimize China's mounting domestic or international challenges, or suggest any change in our desire to manage capital risk in China. However, affordability is a fundamentally different conversation in China than in the rest of the emerging world. Our portfolio in China continues to be aligned to services growth, given the country's current stage of economic development.

Outside of China, real per capita GDP growth is such a powerful concept because it underscores current affordability challenges, the need for emerging markets to increase their capital stock, and the imperative of creating a larger consuming middle class (including for moral and political reasons). As we survey the emerging markets landscape, India has a clear record of increasing real per capita GDP, a recent commitment to public investment, favorable exposure to supply chain realignment, and a domestic opportunity that will continue to entice investment from abroad. It should be noted that real per capita GDP increases in India have occurred despite disappointing growth in the capital stock and red tape that continues to impede achievements on land acquisition and labor reform. Indonesia is another standout emerging country in terms of real per capita GDP progression. As these and select other countries compound output over time, affordability will become less of a constraint, and the consuming middle class for basic goods and services will increase. However, for most of the emerging world, revenue velocity and demand fulfillment are key potential ingredients in achieving disproportionate equity outcomes. Rate cuts in the emerging markets may spur portfolio flows and temporary increases in consumption and investment, but they are unlikely to meaningfully alter growth in the capital stock, real per capita GDP increases or affordability. Thus, we are less focused on the scope for emerging markets central banks to ease policy than our tools for value creation.

### Portfolio Positioning

Our focus on scalable business models has its roots in our economic framework. As potential output moderated in most emerging countries, it became clear to us affordability was not improving and that low penetration was necessary but not sufficient for value creation. We eliminated companies from the portfolio that were struggling to generate revenue significantly in excess of fixed costs, often replacing them with passport companies such as Nvidia and Airbnb that were economically tied to emerging markets. Over a period of time, we have been successful in redefining the emerging markets opportunity set around real per capita GDP increases, growth in the middle class,

revenue velocity and demand fulfillment. Combined with changes in the market backdrop that have resulted in privileged competitive positions for companies with financial strength and access to capital, we find our opportunity set expanding anew to include companies that are both based in emerging markets and conducive to value creation. In the past year, we have added significant investments in Nubank in Brazil, Apollo Hospitals in India, MakeMyTrip in India and Grab in Southeast Asia. These four investments comprise approximately 10% of our portfolio. We have also increased our direct exposure to India (8.4% of the portfolio exiting September) and Southeast Asia (7.4%). Some of these changes are less visible in our asset allocation since they have come against the competing goal of reducing our capital at risk to China, which has fallen from a peak of 38% of our portfolio to about 22% exiting Q3. In places where affordability is challenged and not improving, we continue to be selective with particular attention to revenue velocity and demand fulfillment.

Disproportionate equity outcomes provide the feedstock for compounding outcomes at the portfolio level. Indeed, when disproportionate equity outcomes are realized, we use the concept of value capture to pursue a level of permanence. We then reinvest into new value pathways to enhance diversification and plant seeds for future growth. In the current market backdrop, business value creation has been more than ample across the portfolio, with many companies experiencing good top-line progression against tight expense control and improved competitive backdrops. For example, on consensus estimates MercadoLibre is expected to generate \$1.98 billion in free cash flow (FCF) in 2023 versus \$0.98 billion in 2022, Snowflake \$0.71 billion versus \$0.43 billion, and Sea \$0.75 billion versus a significant cash outflow last year. However, in each case stock market performance has significantly trailed business value creation, such that value has converged with price. Notably, the median P/E multiple in our portfolio is 27.0X on CY24 consensus estimates as of the writing of this letter, inclusive of outsized value creators such as Nvidia (27.0X), Nubank (20.7X), and Meituan (21.7X). Moreover, some portfolio holdings are less expensive after embedding our estimates of normalized earnings. For example, Estee Lauder has seen consensus estimates decline due to post-pandemic destocking in Hainan, while Adyen and Sea have incurred front-loaded investment cycles. Finally, non-earnings based measures such as free cash flow may better capture discounts to intrinsic value for companies such as CrowdStrike, which is 47.3X CY24 EPS but 34.2X FCF. Importantly, business value creation results not only in improved valuations over time but also the potential for disproportionate equity outcomes, which in the current market backdrop have been hard to realize (with the notable exception of Nvidia). Over time, as disproportionate equity outcomes are achieved, they allow us to extract permanence from our investments and reinforce compounding outcomes at the portfolio level.

We thank you for your trust and confidence.

## Investment Process

We seek to build, preserve and enhance a stream of compounded business value. We define this emphasis as follows:

**Build:** Pair low penetration domestic demand with scalable and enduring businesses that are able to drive value creation and disproportionate outcomes.

**Preserve:** Preserve value creation and establish a forward-looking construct for managing risk.

**Enhance:** Leverage value pathways to enhance long-term value creation.

## Investment Results (%)

As of 30 September 2023	Average Annual Total Returns						
	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception <sup>1</sup>
Investor Class: ARTYX	-7.31	15.85	22.60	-9.76	8.63	—	7.06
Advisor Class: APDYX	-7.30	15.94	22.80	-9.62	8.81	—	7.24
Institutional Class: APHYX	-7.26	15.92	22.88	-9.54	8.91	—	7.34
MSCI Emerging Markets Index	-2.93	1.82	11.70	-1.73	0.55	—	2.37

Source: Artisan Partners/MSCI. Returns for periods less than one year are not annualized. <sup>1</sup>Fund inception: 29 June 2015.

Expense Ratios	ARTYX	APDYX	APHYX
Semi-Annual Report 31 Mar 2023 <sup>1</sup>	1.29	1.14	1.05
Prospectus 30 Sep 2022 <sup>2</sup>	1.28	1.11	1.03

<sup>1</sup>Unaudited, annualized for the six-month period. <sup>2</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.

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

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.

Current and future portfolio holdings are subject to risk. 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. 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. 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. Diversification does not ensure a profit or protect against a loss.

MSCI Emerging Markets Index measures the performance of emerging markets. Emerging markets returns and country-specific index returns are in USD unless otherwise stated. All single country returns are net returns based on MSCI country indices. MSCI Emerging Markets Currency Index tracks the performance of 25 emerging market currencies relative to the US dollar. The index(es) are unmanaged; include net reinvested dividends; do not reflect fees or expenses; and are not available for direct investment.

The Global Industry Classification Standard (GICS<sup>®</sup>) is the exclusive intellectual property of MSCI Inc. (MSCI) and Standard & Poor's Financial Services, LLC (S&P). Neither MSCI, S&P, their affiliates, nor any of their third party providers ("GICS Parties") makes any representations or warranties, express or implied, with respect to GICS or the results to be obtained by the use thereof, and expressly disclaim all warranties, including warranties of accuracy, completeness, merchantability and fitness for a particular purpose. The GICS Parties shall not have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of such damages.

MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used to create indices or financial products. This report is not approved or produced by MSCI.

This summary represents the views of the portfolio managers as of 30 Sep 2023. 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 2023: MakeMyTrip Ltd 2.6%, CrowdStrike Holdings Inc. 4.3%, Airbnb Inc 5.6%, Wuxi Biologics Inc 2.1%, MercadoLibre Inc 5.6%, Adyen NV 3.1%, Sea Ltd 5.0%, The Estee Lauder Cos Inc 3.0%, LVMH Moet Hennessy Louis Vuitton SE 3.1%, ASML Holding NV 3.1%, Nu Holdings Ltd 2.3%, Apollo Hospitals Enterprise Ltd 2.6%, Grab Holdings Ltd 2.5%, Snowflake Inc 2.4%, Nvidia Corp 5.6%, Meituan 3.8%. 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 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.

Attribution is used to evaluate the investment management decisions which affected the portfolio's performance when compared to a benchmark index. Contribution to Return is calculated by multiplying a security's portfolio weight by its in-portfolio return for the period. Purchases/sales are accounted for by using end of the day prices, which may or may not reflect the actual purchase/sale price realized by the portfolio. Attribution and contribution to return are not exact, but should be considered an approximation of the relative contribution of each of the factors considered.

If applicable, revenue data is sourced from FactSet, is approximate and is subject to change based on the availability of company reported data.

This material is provided for informational purposes without regard to your particular investment needs and 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.

**Free Cash Flow** is a measure of financial performance calculated as operating cash flow minus capital expenditures. **Earnings per Share (EPS)** is the portion of a company's profit allocated to each outstanding share of common stock. **Price-to-Earnings (P/E)** is a valuation ratio of a company's current share price compared to its per-share earnings.

Artisan Partners Funds offered through Artisan Partners Distributors LLC (APDLLC), member FINRA. APDLLC is a wholly owned broker/dealer subsidiary of Artisan Partners Holdings LP. Artisan Partners Limited Partnership, an investment advisory firm and adviser to Artisan Partners Funds, is wholly owned by Artisan Partners Holdings LP.

© 2023 Artisan Partners. All rights reserved.

