Artisan Developing World Strategy

QUARTERLY
Commentary

As of 30 June 2023

Portfolio Management
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Market Backdrop

The Artisan Developing World Strategy returned 1.87% (net) for the quarter ended June 30, 2023, versus 0.90% for the MSCI Emerging Markets Index (all returns in USD unless stated otherwise). Since July 1, 2015, the Artisan Developing World Strategy has returned 92.37% (net) cumulatively, versus 23.33% for the MSCI Emerging Markets Index. Debt ceiling negotiations had little lasting impact on equity markets, which continue to defy expectations for an economic slowdown. Resilient markets at least partially reflect lower inflation readings, optimism about emerging technologies, and investor positioning. Meanwhile, weakening economic expectations are visible in the differentials between short-term policy rates and long-term bond yields. Production cuts from the OPEC+ consortium (to limited effect) can be viewed in much the same vein. We have also seen a disappointing post-pandemic rebound in China, while the effects of the regional banking crisis on credit extension and the commercial real estate market are perhaps only now being felt. Tight monetary policy around the world is also still working through the system, including in emerging markets where fault lines are most visible in externally vulnerable countries such as Argentina, Nigeria and Turkey, which have experienced substantial currency pressure. Meanwhile, most emerging markets performed reasonably well. Brazil rose 20.67% during the quarter despite modest declines in the Brazilian real, perhaps due to optimism about Brazilian President Lula's influence on fiscal and monetary institutions to stimulate the economy. India rose 12.23% as Indian Prime Minister Modi visited the US, Apple opened its first store in India, and news outlets reported India is poised to exceed China in total population later this year; India is now the fifth-largest stock market in the world after the US, China, Japan and Hong Kong and continues to benefit from investor unease with China. Eastern and emerging European countries were also standout performers (Greece +23.85%, Hungary +24.77%, Poland +24.49%). The only notable major laggard was China (-9.71%) as geopolitical tensions were visible and markets responded to weak export and property market data.

Contributors and Detractors

Top contributors to performance for the quarter included graphics semiconductor company Nvidia, Latin American online bank Nu Holdings (Nubank), global streaming giant Netflix, 3D design company Unity and global payments leader Adyen. Nvidia rose after reporting strong results and forecasting significantly higher data center revenues for the coming quarter, driven by rising artificial intelligence investments around the world. Nubank benefited from early signs of success in Brazilian payroll lending and Mexican customer acquisition, and improving investor sentiment regarding the Brazilian macroeconomic and rates outlook. Netflix benefited from the success of the new ad tier that allows users to access the service at a lower price, and from the paid sharing initiative that allows multiple users to share an account for an additional fee. Unity rebounded after announcing a partnership with Apple on the Vision Pro virtual reality headset and new AI features and a marketplace for the Unity ecosystem, though its digital ad business continues to struggle. Adyen may have benefited from constructive volume data points from peers and ongoing success with platforms (the company's small business initiative).

Bottom contributors to performance for the quarter included Southeast Asian Internet leader Sea, Chinese video streaming platform Bilibili, Latin American marketplace MercadoLibre, global beauty leader Estee Lauder and real estate platform KE Holdings (Beike). Sea declined due to rising investor concerns around e-commerce competition from TikTok in Southeast Asia during a period of subdued gross merchandise value growth, while the gaming business continues to struggle. Bilibili fell after reported gaming revenue decay in legacy titles and an underwhelming advertising recovery, though cost-cutting measures and balance sheet optimization have been visible. MercadoLibre was negatively impacted by investor concerns around a potential devaluation of the Argentine peso despite the natural hedge of its expense footprint in the country, and without regard to continued momentum in the company's Brazilian and Mexican operations. Estee Lauder fell due to ongoing inventory destocking in key Asian travel retail channels including Hainan and South Korea, though end market demand trends are relatively more resilient. Beike fell due to weaker industry property sales in China in April following the release of strong pent-up demand in Q1, despite accelerating revenue and very modest cost growth.

Market Outlook

The geopolitical backdrop in China was no less complicated in recent months. Notably, Chinese regulators initiated onsite investigations into US businesses operating in China including Capvision, Bain & Company and Mintz. In addition, perhaps in retaliation for US semiconductor restrictions, China labelled Micron a "national security risk" and banned the company from selling into key infrastructure and government projects. Foreign businesses in China are increasingly responding to these developments. For example, AstraZeneca may list its China operations separately in Hong Kong, and Sequoia announced plans to separate its China division. China's efforts to quell these concerns by highlighting the merits of state-owned enterprise-backed companies and alternative governance models have been met with limited success. Meanwhile, the US has tried to pivot toward Europe's construct of "derisk but not decouple" as outlined by Ursula von der Leyen in March and then adopted by Janet Yellen and the G7 later. China seems to view these efforts as lacking in substance. To this point, the US recently enhanced semiconductor export

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restrictions, highlighted China's alleged spy facilities in Cuba, and characterized Xi in unfavorable terms. The economic backdrop is also proving problematic as the post-pandemic recovery in China disappoints. Notably, China was more measured in its fiscal support during the pandemic, which may have resulted in more marginal excess savings than experienced in the US in particular (and less inflation too). China is also suffering from more challenging Western export markets, a problematic domestic property sector, and significant youth unemployment. These factors are perhaps visible in the weaker performance of the renminbi in recent months. China has responded with tangible if modest policy measures including a 10bps cut in the loan prime rate (or LPR, a benchmark lending rate), and a decline in deposit rates for state banks, which, in theory, incentivizes consumption and investment. Cyclically, we remain optimistic about the potential for services consumption to outpace overall economic recovery, which was visible in strong earnings reports from both Meituan and Beike (our two largest China holdings). Structurally, we continue to be consistent in our approach to these challenges, by seeking to reduce capital at risk at moments of low reinvestment risk while emphasizing a handful of domestically oriented businesses with the potential for disproportionate equity outcomes. For example, on March 31, 2022, at the height of the Russia/Ukraine fears when it appeared China might provide military assistance to Russia, we had a 24.21% weight in China (MSCI EM Index 30.04%). On October 31, 2022, on the eve of the Party Congress, which marked the recent low for Chinese equities, we had a 20.4% weight in China (index 26.89%). Exiting the quarter, we had a 19.98% weight in China (index 29.55%). We have been careful to retain pathways for a reflation in Chinese assets should one materialize, as visible in the performance of our China holdings in the October through January reflation period.

Moreover, China and other emerging countries continue to unite against notions of Western hegemony, around the concept of non-alignment. Nowhere is this development more visible than in emerging country attitudes toward Russia's invasion of Ukraine. India has been a significant buyer of Russian crude oil, South Africa may have covertly supplied arms to Russia via its navy, China's ambassador to France stated that former Soviet states lacked "effective status under international law," and Brazil blamed both Russia and Ukraine for the current conflict. While these developments are notable and probably underscore China's potential and leadership in a more fully decoupled world, they highlight that emerging countries are increasingly acting in their own self interests. They perceive the need and potential to benefit from economic connectivity with China and the West. Perhaps they will ultimately have to choose a side, but there is also potential for select countries to benefit from "two-sided" investment from China and the US, or supply chain independence as we are seeing in India and Mexico. In all cases, emerging countries remain highly dependent on foreign capital and will seek to keep their options open. On a more encouraging note, US Secretary of State Blinken visited China following other diplomatic engagements in Vienna and Detroit, and US President Biden continues to emphasize a desire to stabilize relations.

Portfolio Positioning

Meanwhile, economic growth remains challenging for many emerging economies. To help underscore and quantify some of the challenges, we have commissioned a study from Goldman Sachs to look at economic development over the last four decades. Real per capita GDP growth is our proxy for the expansion of the middle class and broader economic participation, which should in theory drive increasing penetration of basic goods and services. An equal-weighted composite of Brazil, Russia, South Africa (the B, R, and S in BRICS) and the Middle East yields the following real per capita GDP progression: 1980s*: -1.2%, 1990s: -0.2%, 2000s: 3.0%, 2010s: 0.0%. In other words, absent population growth, there is little real economic progress and elusive economic participation. There are exceptions. For example, India has seen material increases in real per capita GDP over multiple decades (1980s: 3.2%, 1990s: 3.5%, 2000s: 5.1%, 2010s: 3.9%), which complements an increase in the population. This admittedly comes at lower level of per capita GDP, which for now tempers value creation in absolute terms, but India is a place where disproportionate equity outcomes are in theory increasingly possible. In Indonesia, the backdrop is similar: 1980s: 4.4%, 1990s: 2.8%, 2000s: 3.9%, 2010s: 3.2%, to complement a young population. We can observe two scenarios: countries where the income pyramid is not expanding, and those at low income levels such that affordability remains a challenge. Last quarter, we introduced the concept of revenue velocity, which is closely linked to scalability and is specifically designed to address such constraints. Essentially, revenue velocity affords us the opportunity to transcend limited economic mobility and penetration increases across most emerging markets. Our investment in Apollo Hospitals is an excellent example of this approach. Apollo's core business is hospitals, which have achieved scale and are generating free cash flow. Rather than be captive to lower levels of revenues/bed and India's low income levels, Apollo has sought to monetize this same customer base by entering other tangential businesses. It is now India's largest pharmacy chain and is leveraging brand awareness to enter diagnostics. In this way, it has achieved revenue velocity: revenue generation across multiple dimensions at relatively low price points, which in aggregate creates the potential for disproportionate equity outcomes. We view MercadoLibre's and Sea's presence in e-commerce, fintech and digital advertising in much the same light.

When we are successful in achieving disproportionate equity outcomes, we need a process for managing them. Entering this year, we had a ~6.5% position in Nvidia. Due to the enthusiasm for generative AI and a rapid conclusion to "cloud optimization," the stock has surged 189.5% this year including 52.31% in Q2. In this situation, we employed what we call value capture: an attempt to achieve a level of permanence by reducing our position to an original target weight, while investing the proceeds into three distinct value pathways. The first of these is diversification: We reinvested in new positions, as we did with Apollo Hospitals in Q1 and Coca Cola and Datadog in Q2. The second is correlations: We emphasized businesses with a more defensive business profile, as we did with our substantially increased investment in Estée Lauder and our opportunistic purchases of HDFC Bank. The third is residual positions: We retained an investment in Nvidia with less capital at risk, an approach which afforded us the potential to prudently participate in excellent investments over long periods of time. Notably, despite our gradual position reductions, Nvidia has contributed 1491bps (1417bps net) to performance since inception. In turn, these value pathways form the foundation upon which our risk management framework rests, and put us in position to execute our investment program in future periods of duress.

Finally, it is worth discussing a real-world manifestation of Flexion. The Flexion construct is a mechanism for extracting value from troubled situations and avoiding the behavioral impairment of capital. In Q4, our recent investment in Latin American payments company Dlocal was confronted by a fraud accusation from a short seller. As we worked to substantiate the accusations, the challenging market backdrop persisted and opportunities in many of our stocks presented themselves, including in Latin America. Thus, a moment of below-average reinvestment risk emerged, and we were able to exit an increasingly challenged residual investment in Dlocal (65bps at $12.52) while redeploying the proceeds in Nubank (added at $4.21) and MercadoLibre (added at $904.69). Dlocal has since struggled to recover from the allegations (-3.82% through June 30, 2023), while Nubank has rebounded 93.9% and MercadoLibre 34.0%. In this way we were able to avoid the behavioral impairment of capital, realize a significant taxable loss, and extract utility from a troubled investment.

We thank you for your trust and confidence.

Investment Results (% USD)

As of 30 June 2023	QTD	YTD	Average Annual Total Returns 1 Yr	3 Yr	5 Yr	10 Yr	Inception[1]
Composite — Gross	**2.13**	**25.49**	**21.91**	**-0.75**	**10.33**	—	**9.65**
Composite — Net	**1.87**	**24.86**	**20.65**	**-1.79**	**9.19**	—	**8.52**
MSCI Emerging Markets Index	0.90	4.89	1.75	2.32	0.93	—	2.65

Annual Returns (% USD) 12 months ended 30 June

	2019	2020	2021	2022	2023
Composite — Net	**18.81**	**37.90**	**52.72**	**-48.59**	**20.65**

Source: Artisan Partners/MSCI. Returns for periods less than one year are not annualized. [1]Composite inception: 1 July 2015.

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.

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Investment Risks: 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. These risks, among others, are further described in Artisan Partners Form ADV, which is available upon request. Diversification does not ensure a profit or protect against a loss.

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 Developing World Strategy Composite's total net assets as of as of 30 Jun 2023: Nvidia Corp 6.4%, NU Holdings Ltd 2.0%, Netflix Inc 3.0%, Unity Software Inc 1.7%, Adyen NV 4.6%, Sea Ltd 5.8%, Bilibili Inc 1.5%, MercadoLibre Inc 6.6%, The Estee Lauder Cos Inc 3.2%, KE Holdings Inc 2.9%, Meituan 3.6%, Apollo Hospitals Enterprise Ltd 2.1%, The Coca-Cola Co 1.1%, Datadog Inc 1.2%, HDFC Bank Ltd 3.2%. Yandex NV was among the top five contributors to performance for the period and represented 0.0% of the total portfolio as of 30 Jun 2023. 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.

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.

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

If applicable, contribution is calculated by multiplying a security's weight by its return daily for the period and has been derived from a holdings-based methodology that varies from the portfolio's actual performance calculation by accounting for purchases/sales using end-of-day pricing, rather than intraday transactions. Net contribution has been calculated by 1) deducting the related Composite's net return, which has been reduced by the highest model fee, from the greater of either of the portfolio's gross contribution total or the Composite's gross return, to determine a "model fee" applicable to managing the representative account's portfolio, 2) weighting that model fee based on each investment's average weight during the period; and then 3) deducting the weighted model fee from each investment's corresponding gross contribution to arrive at the net result. Return attribution identifies relevant factors that contributed to the portfolio's results, but is not exact, nor representative of actual investor returns due to several variables (e.g., security pricing, cash flows, the deduction of fees and expenses, etc.), and therefore should be examined in conjunction with performance of the portfolio or Composite during the period. Artisan will promptly provide further information on the methodology used or the performance of the account from which the individual security returns were extracted upon request.

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. 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. 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 manager as of 30 Jun 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.

Free Cash Flow is a measure of financial performance calculated as operating cash flow minus capital expenditures.

*This figure does not include real GDP per capita data for Russia, as it was not a market-based economy until the 1990s.

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