



Artisan Emerging Markets Debt Opportunities Strategy

QUARTERLY
Commentary

As of 30 June 2024

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 investment team's core has been together for over 15 years, and our 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 30 June 2024	QTD	YTD	Average Annual Total Returns					Inception ¹
			1 Yr	3 Yr	5 Yr	10 Yr		
Composite — Gross	0.00	4.17	9.69	—	—	—	12.54	
Composite — Net	-0.19	3.78	8.87	—	—	—	11.71	
J.P. Morgan EMB Hard Currency / Local Currency 50/50	-0.37	-0.35	4.92	—	—	—	4.47	

Annual Returns (% USD) Trailing 12 months ended 30 June

	2020	2021	2022	2023	2024
Composite — Net	—	—	—	19.70	8.87

Source: Artisan Partners/J.P. Morgan. Returns for periods less than one year are not annualized. ¹Composite inception: 1 May 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 outperformed the J.P. Morgan EMB Hard Currency/Local Currency 50/50 Index in Q2 and remains ahead of the index year to date. The portfolio outperformed the J.P. Morgan GBI-EM Global Diversified Index for Q2 but trailed the J.P. Morgan EMBI Global Diversified Index and J.P. Morgan CEMBI Broad Diversified Index for the period. The portfolio outperformed all indices year to date except for the J.P. Morgan CEMBI Broad Diversified Index.

Exhibit 1: Total Benchmark Returns

	Q2 2024	YTD 2024
J.P. Morgan EMBI Global Diversified Index	0.30%	2.34%
J.P. Morgan GBI-EM Global Diversified Index	-1.63%	-3.71%
J.P. Morgan CEMBI Broad Diversified Index	1.49%	3.85%
J.P. Morgan EMB Hard Currency/Local Currency 50/50 Index	-0.37%	-0.35%

Source: Artisan Partners/J.P. Morgan. Past performance does not guarantee and is not a reliable indicator of future results.

Investing Environment

As emerging and developed countries continue to grapple with ongoing inflation and challenges to growth, differentiation in the market and variations in performance are becoming more pronounced. Corporates outperformed all other emerging markets debt (EMD) sectors in Q2 as corporate credit spreads tightened on the back of stable fundamentals and supportive technicals. Local currency bonds were the worst performing EMD sector for the period as emerging markets currencies continued to weaken against a stronger US dollar. Hard currency sovereigns were flat for the quarter as spreads widened moderately.

Lingering inflationary pressures across the globe have led to stalls in the disinflation process in some countries and regions. As policy makers continue to evaluate financial conditions, central banks are finding themselves at varying stages of the monetary policy cycle. Countries such as Hungary, Mexico and Brazil have seen the disinflation process slow and inflation reaccelerate. Many of these countries were early movers in 2021 to raise rates, but now their central banks are being forced to pause or slow the pace of rate cuts. Meanwhile, countries that have remained prudent and held rates steady for longer continue to see robust disinflation, such as Serbia, which just began cutting rates in June.

Developed markets have remained in sync through this cycle, but they are now beginning to diverge from one another. The Fed and BOE kept rates unchanged during Q2 while the ECB cut rates by 25bps in June, its first interest rate cut in almost five years and a notable divergence from peers. The ECB stopped short of indicating future rate cuts are expected, and it even raised its inflation forecasts for 2024 and 2025. The Fed continues to assess fluctuating signals from both inflation and the labor market and revised its rate cut forecast down to only one cut for this year. US inflation topped forecasts at the beginning of Q2 but has since slowed to its lowest pace in three years. Conversely, the labor market showed signs of cooling at the

beginning of the quarter but demonstrated resilience toward the end of the period. After the BOJ ended its era of negative interest rates in Q1, the interest rate differential between Japan and its developed market peers continued to widen as the BOJ left rates unchanged throughout the quarter.

Emerging markets issuance slowed in Q2 relative to Q1 but has remained robust, reaching 85% of the 2023 total by the end of the first half. Corporate issuance ticked up slightly in Q2 while sovereign issuance declined but remains well above its average quarterly issuance seen in the past five years. Several countries took advantage of the healthy new issue market to issue for the first time in a long time, such as El Salvador. El Salvador's unique issuance included a conventional amortizing bond as well as a warrant that will pay an adjusted payout to investors if the country agrees to a deal with the International Monetary Fund or it receives a credit rating upgrade.

Sovereign spreads widened during Q2 due to a combination of increased issuance in the first half of the year and a more challenged global growth outlook. Despite the widening, spreads remain below their 15-year average levels. The re-inclusion of defaulted Venezuela and PDVSA bonds in sovereign indices contributed to an outsized one-day adjustment in spreads, resulting in the index widening by ~50bps in Q2. Yet sovereign indices that exclude defaulted bonds widened by only ~5bps in Q2.

Emerging markets currencies were broadly weaker as the US dollar appreciated, driven by market expectations of prolonged higher interest rates in the US. Political events spurred fluctuations in local currency markets.

For example, after the presidential elections in Mexico, where Claudia Sheinbaum and the ruling Morena party secured a congressional majority, the Mexican peso plummeted by more than 7%, local interest rates surged, and credit spreads widened. The South African rand and bonds rallied following the nation's elections in May where the ruling Africa National Congress (ANC) party lost its majority for the first time since independence and was forced to form a "Government of National Unity" with other parties, including the Democratic Alliance (DA).

While emerging markets debt remains at the mercy of an increasingly uncertain global macroeconomic backdrop, local events across the globe continue to shape idiosyncratic returns. In Bolivia, the top military commander led military units that stormed the government palace in a failed coup attempt, sending sovereign bonds weaker. Argentina bonds rallied after Congress approved President Milei's omnibus bill that includes proposals to slash state spending and reforms expected to attract foreign investments, ease labor laws and facilitate privatization. Zambia's multiyear default concluded after the government successfully secured a deal with bondholders, boosting dollar bond returns. Georgian sovereign bonds declined after the government reintroduced and passed a Russian-style Transparency Law, resulting in large protests.

Portfolio Positioning

In our view, the portfolio remains conservatively positioned as geopolitical uncertainty persists and valuations have become less attractive. The team took advantage of certain sovereign credit opportunities in Africa and Latin America that remain attractive despite tight spread levels. These countries continue to demonstrate robust fundamentals, healthy growth outlooks and attractive valuations. The portfolio remains overweight duration in emerging markets and underweight duration in developed markets relative to the J.P. Morgan EMB Hard Currency/Local Currency 50/50 Index, translating to an overall underweight duration positioning relative to the index. The team reduced its local rates exposure in Asia as the disinflation process has stalled in many countries. Elsewhere, the portfolio remains overweight local rates in Latin America where fiscal and political reforms continue to enhance fundamentals in certain countries. The team reduced the portfolio's currency exposure during Q2 as inflationary and geopolitical uncertainties grew, especially in Eastern Europe and Latin America, but remains overweight relative to the index.

The EMSights Capital Group continues to search for countries with improving storylines where market prices are not fully reflecting fundamentals. Overall, valuations in EMD are fuller, warranting a more conservative approach for now. We continue to seek out idiosyncratic events in the corporate and sovereign space that shape the market landscape and drive divergence between the regions and countries. The global economy continues to face challenges, many of which are serving as tailwinds that keep the emerging markets debt outlook strong. With one of the busiest election cycles on record, growing geopolitical tensions and fiscal consolidation continue to present exploitable volatility events.

Exhibit 2: Q2 2024 Attribution—Relative to the J.P. Morgan EMB Hard Currency/Local Currency 50/50 Index

Contributors¹

Underweight to Colombian peso

Underweight to Mexican peso

Overweight Turkish lira

Detractors

Overweight to Brazilian real and rates

Underweight South African rand and rates

Overweight to Nigerian naira

¹The United States was among the top contributors to relative performance as a result of hedges, derivatives, trading, collateral balances and cash instruments.

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The J.P. Morgan (JPM) EMB Hard Currency/Local currency 50-50 is an unmanaged, blended index consisting of 50% JPM Government Bond Index-Emerging Market Global Diversified (GBIEMGD), an index of local-currency bonds with maturities of more than one year issued by EM governments; 25% JPM Emerging Markets Bond Index-Global Diversified (EMBIGD), an index of USD-denominated bonds with maturities of more than one year issued by EM governments; and 25% JPM Corporate Emerging Market Bond Index-Broad Diversified (CEMBIBD), an index of USD-denominated EM corporate bonds. 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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