ARTISAN PARTNERS SUSTAINABLE EMERGING MARKETS TEAM

# Annual **Sustainable Investing** Report 2021

A R T I S A N P A R T N E R S

For Institutional Investors Only—Not for Onward Distribution

# COMMITMENT TO **SUSTAINABILITY**

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March 2022

Maria Negrete-Gruson, CFA
Portfolio Manager

30 Years Investment Experience

Emerging markets (EM) faced a challenging year, as the COVID-19 pandemic inflicted another wave of humanitarian crises and postponed economic recoveries. It was yet another test of EM's endurance. Heading into the pandemic's third year, many EMs are confronting strained supply chains, inflation, uneven economic activity, as well as uncertain national and global political conditions. While today's drivers of turbulence in EM may seem unique, it is important to point out that these countries are inherently more volatile than developed markets.

Against this backdrop, it may seem surprising to say the Artisan Sustainable Emerging Markets Team is hopeful, even optimistic, about EM companies' long-term prospects. However, time and again we have witnessed how resilient they can be. And the pandemic has been no different, as many companies have been able to balance profits and progress. Indeed, we believe the pandemic has pushed many companies to strengthen their commitment to environmental, social and governance (ESG) principles.

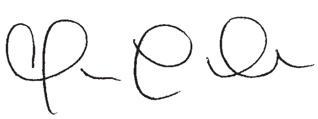
Our perspective is influenced by decades of personal and professional experience. Sustainability assessments and investment decisions must be made through an EM lens. To apply developed world standards would be a disservice; it would vastly limit our opportunity set, and it would prevent us from directing capital to companies in transition that are genuinely committed to change. After all, these companies operate in countries that exist along a spectrum of various development measures and tend to be less advanced from an ESG standpoint.

We take a comprehensive and decisively EM approach to our process. Our goal is to identify demonstrable progress and quantifiable positive change in companies. We believe our approach is realistic because it is based on a deep understanding of the unique circumstances in each market.

And just as EM companies and countries are evolving, so are we. The quality of ESG information has improved dramatically which has enabled us to improve our assessment capabilities. Our latest step has been to apply the Sustainable Industry Classification System (SICS®) of sectors and industries. The SICS system helps us better view the investment universe as companies are grouped by similar business models, resource intensity and sustainability impacts.

Another one of our efforts is this annual report. We believe it provides more transparency into our differentiated view of sustainability, our process for assessing EM companies, important sustainability trends and the ways that some companies are making impacts.

The core of our team has been investing together in EM for more than two decades. Since the beginning, we have felt a commitment to the people of EM to invest in companies positively impacting their communities. As committed long-term investors, we believe that sustainable investing yields the greatest rewards for companies, communities, the environment and our investors.



Maria Negrete-Gruson


# OUR TEAM

Each member of the Artisan Partners Sustainable Emerging Markets Team truly understands EM countries—growing up, studying, working or spending a significant of time in them. Collectively, we have witnessed EM's evolution first-hand—better living standards, accelerating technological development, greater environmental awareness and improving corporate governance. Our personal connections to EM also drive our passion for investing in companies making positive progress and working to improve conditions in EM as good corporate citizens and good business operators.

The team's core has been investing together in EM since 1999—Maria and analysts Meagan Nace and Chen Gu formed an investment team in the aftermath of the late-1990s Asian financial crisis. The decisions that triggered the crisis and the subsequent financial market and government responses also shaped our philosophy and process. We identify companies with sustainable competitive advantages and unique access to growth through a combination of financial and strategic analysis, on-the-ground research, ESG considerations, country risk analysis and our local understanding of EM.

Over time, the team has grown. Analyst Gurpreet Pal joined Artisan Partners in 2011, and Nicolas Rodriguez-Brizuela and Jessica Lin joined the firm in 2014.

The keys to successful active management in EM are insight and good judgment. Our backgrounds and experience foster a valuable combination of cultural and cognitive diversity that constantly enhances our analysis. And we believe our differentiated approach to researching companies and views on sustainable investing are important advantages.

## NAVIGATING CHANGE

We've invested through multiple business cycles and witnessed many major economic and political events. Our experience gives us the confidence to remain focused during adverse periods. At the same time, we've expanded our investment team, enhanced our sustainability assessment and taken lessons from market turbulence to refine our country risk analysis.

# Team and Process Development

## TEAM

**1999**
Maria and analysts Meagan Nace and Chen Gu form emerging markets investment team

**2006**
Investment team joins Artisan Partners

**2011**
Gurpreet Pal joins team

**2014**
Nicolas Rodriguez-Brizuela and Jessica Lin join team

97 98 99 00 01 02 03 04 05 06 07 08 09 10 11 12 13 14 15 16 17 18 19 20 21

## PROCESS

**1999**
Create country risk assessment

**2005**
Expand country risk assessment

**2014**
Formalize sustainability assessment (third-party ESG scores and analyst driven governance scores) & customize country risk assessment's economic indicators for each country

**2018**
Add economic indicators to country risk assessment

**2019**
Switch from third-party ESG scores to incident trend analysis based on RepRisk sourced data

**2020**
Adopt SICS sector/industry classifications & enhance ESG assessment with industry-based factors based on SICS classifications

## ESG

**1999**
MSCI begins rating companies based on industry material ESG risks

**2000**
United National Global Compact launched

**2006**
United Nations launches Principles for Responsible Investment (PRI)

**2011**
The Sustainability Accounting Standards Board (SASB) is launched

**2013**
India introduces statutory corporate social responsibility

**2015**
Sustainable development goals created & Paris Agreement—international treaty on climate change

The information we gather from our travels and engagements further informs the empirical component of our sustainability assessments.

# AN EMERGING MARKETS VIEW OF SUSTAINABILITY

## OUR CORE BELIEFS:

- Over the long-term, emerging markets will continue to grow faster than developed markets
- Sustainable practices allow a company to withstand the fragility and resulting volatility of emerging markets

## WE SEEK COMPANIES POSSESSING:

- Unique access to sustainable growth
- Sustainable competitive advantages
- An ability to endure boom-bust cycles while acting responsibly towards their stakeholders

## OUR DIFFERENTIATED APPROACH TO SUSTAINABILITY:

- Identify companies with business models committed to profits and progress that can generate sustainable earnings
- Go beyond ESG by assessing a company's ability and commitment to bring continuity to shareholders, employees, customers and communities
- Acknowledge the realities of emerging markets and reward improvement in corporate practices
- Reject negative screens and exclusion lists, which overlook positive change

# SUSTAINABILITY—DIFFERENTIATED AND INTEGRATED

The team utilizes a sustainability assessment that emphasizes momentum—the direction and degree of a company's past ESG-related actions, its current activities and policies, as well as goals and resources in place for further ESG progress.

Our assessment provides a comprehensive ESG score which has a direct impact on a company's target price, as determined by an analyst.

**The sustainability assessment has two components: empirical and incident.**

**Empirical:** Comprising our long-term coverage of companies, industries and countries. Interviews, site visits, company filings and independent ESG sources inform our opinion of a company's ESG efforts. The assessment is forward-looking and experiential.

**Incident-Based:** A multi-year trend analysis utilizing data from RepRisk, a leader in ESG data science and research. The incident data is compiled from various media sources and non-governmental organizations. It includes frequency and severity of ESG transgressions based on the 17 Sustainable Development Goals (SDGs). Trend analysis allows us to generate more precise measures of individual company risks. Additionally, we can assess positive change over time as a company shifts its policies to better align with stakeholders' interests.

The combination of incident-based and empirical analysis is more dynamic and rigorous than third-party reports relying on company-provided information or policies.

For each ESG factor, the empirical and incident-based scores are combined to provide a factor score. The three factor scores are then integrated into an overall ESG score which directly impacts the analyst's valuation for each company. The target price is increased for a company with a high overall ESG score (4 or 5). The target price remains unchanged for a company with an average overall score (3). The target price is reduced if a company has a weak overall ESG score (1 or 2). Target price adjustments are not symmetric; premiums applied to exemplary companies are not as significant as discounts applied to companies with poor sustainability risk profiles.

| | | | | | |
|---|---|---|---|---|---|
| **Overall Assessment Score:** | 1 | 2 | 3 | 4 | 5 |
| **Target Price Adjustment:** | -40% | -20% | — | +10% | +20% |
| | REDUCE | | NEUTRAL | INCREASE | |

For illustrative purposes only. The information contained herein represents a simplified presentation of a complex process. The investment process is subject to change.

The process allows an analyst to reflect the ESG-related risk in each company in a pragmatic and dynamic manner. A focus on momentum also offers the potential advantage of finding a suitable investment opportunity earlier in a company's transformation.

The team conducts this price-adjustment analysis in lieu of using negative ESG screens. The team believes excluding a company simply because it operates in an industry considered to be ESG unfriendly or it appears unattractive based on a static snapshot of ESG metrics can lead to biases and blind spots. Instead, the team cares about how a company's management acknowledges and addresses the ESG risks it faces and how a company improves these exposures over time.


# EVOLUTION AND ENHANCEMENT

While we have maintained our core beliefs, philosophy and process, we embrace the reality that success over time requires evolution and improvement. The sustainability assessment was part of the investment process at inception, but it has undergone meaningful changes over time. As the quantity and quality of ESG information has improved for EM, so has the team's ability to assess information and use it to make target price adjustments.

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More recent sustainability assessment changes include:

- In 2014, the team formalized a sustainability scoring process, comprising qualitative and quantitative components. The qualitative component included eight governance items scored by analysts. The quantitative component used monthly ESG reports and scores from a third-party provider.
- In 2018, the team transitioned from third-party ESG reports and scores to trend analysis based on RepRisk's incident-based data—frequency and severity of ESG transgressions based on SDGs.
- In 2020, the team made its empirical component more comprehensive and uniform. The forward-looking empirical component relies on analyst interviews and site visits, company filings and other independent ESG sources.
- In 2020, the team adopted SICS sectors and industries. Company classifications based on sustainability-related risks and opportunities are more in line with the team's view of the investment universe and company analysis.

Updates have also been made to the team's country risk analysis. EM countries are in different stages of economic, social and political development, which have important implications for each company's fundamentals. Since 2014, the team has expanded the range of possible macroeconomic factors, enhanced the process to determine each country's most significant factors, implemented monthly updates and increased the maximum number of factors per country. As a result, the team's risk model is more dynamic and relevant to each country

As the quantity and quality of ESG information has improved for EM, so has the team's ability to assess information and use it to make target price adjustments.

# Our sustainability analysis incorporates **SDGs** in both the empirical and incident assessments.

For more information on Sustainable Development Goals, visit
**https://www.un.org/sustainabledevelopment**


# Sustainable Development Goals

Given our local perspectives and investment experiences, we appreciate the potential impact of SDGs. Many EM companies are understandably on board; an MSCI survey shows more EM companies state they are "strongly aligned" or "aligned" with SDGs than North American counterparts. The 17 goals are particularly relevant to some of the largest sustainability challenges EM populations are tackling: poverty, inequality, lack of economic opportunity, access to resources and unhealthy environmental conditions.

Our sustainability analysis incorporates SDGs in both the empirical and incident assessments.

- Consideration of SDGs are inherent in the empirical assessment. Our analyst-driven empirical assessment goes beyond standard ESG performance metrics and company claims. Empirical assessments focus on action and momentum; analysts can capture one-off actions and anecdotal information from all stakeholders as it relates to a company's sustainability efforts and underlying SDGs.
- Within our incident-based assessment, RepRisk uses SDGs as part of its rules-based methodology to help determine and classify risk incidents.

Ultimately, we invest in EM because we want to direct capital to companies that can have a long-term positive and sustainable impact on EM populations.

The differences between SICS and the widely used MSCI GICS system are discernable and valuable.

# SICS: ALIGNING ANALYSIS WITH ESG REALITIES

In order to complete a rigorous sustainability assessment, we need to understand the most relevant ESG considerations for a company and the industry in which it operates.

To help us better view the investment universe through a sustainability lens, the team adopted an industry classification system created by the Sustainability Accounting Standards Board (SASB). Classification systems typically group companies by line of business, economic activity or revenue source. But SASB's classification system groups by similar business models, resource intensity and sustainability impacts. And nearly all of the industry-specific topics included in SASB's sustainability accounting standards can be linked to SDGs.

| **GICS** Sectors | **SICS** Sectors |
|---|---|
| Communication Services | Consumer Goods |
| Consumer Discretionary | Extractives & Minerals Processing |
| Consumer Staples | Financials |
| Energy | Food & Beverage |
| Financials | Health Care |
| Health Care | Infrastructure |
| Industrials | Renewable Resources & Alternative Energy |
| Information Technology | Resource Transformation |
| Materials | Services |
| Real Estate | Technology & Communications |
| Utilities | Transportation |

The differences between SICS and the widely used MSCI Global Industry Classification Standard (GICS) system are discernable and valuable. Both systems have 11 sectors divided into industries—69 within GICS and 77 in SICS. Considerable overlap occurs in areas such as financials and health care. However, bigger differences emerge in areas where sustainability issues can diverge across and within business line definitions, such as extractives, materials, industrials, utilities and technology.

**EXAMPLE:** Commercial services and supplies is a GICS defined industry within the industrials sector. In terms of ESG, commercial services companies can be rather varied, which has implications for which environmental and social factors are particularly relevant.

GPS and Sunny Friend Environmental Technology are considered similar enough by MSCI to be grouped into the same GICS industry. But viewed through an ESG lens, we believe the SICS classification captures some important distinctions. Besides the more obvious differences in what these companies provide, clear differences exist in the potential environmental and social impacts of each company's operations. For GPS, environmental and social areas of focus include product sustainability and data privacy, while Sunny Friend's areas of focus include land use impact, climate change risk, and health and safety. We also consider human capital, labor rights and equity to be important for both companies.

| **GICS** Industry | Companies in Same **GICS Industry** | Are in Different **SICS Industries** |
|---|---|---|
| Commercial Services & Supplies | **GPS Participacoes**—Brazil's largest outsourcing provider | Professional & Commercial Services |
| | **Sunny Friend Environmental Technology**—a leading provider of medical and hazardous industrial waste treatment services in Taiwan and Beijing | Waste Management |
| Electrical Equipment | **Aeris Energy**—a Brazilian producer of rotor blades for wind energy turbines | Wind Technology & Project Developers |
| | **Havells India**—electrical goods company focused on lighting products, fans, switches, cables, switchgears and consumer appliances | Electrical & Electronic Equipment |
| Entertainment | **Sea Ltd.** —Singapore-based Internet company | Software & IT Services |
| | **HYBE**—a Korean music-based entertainment company | Media Entertainment |

Given SICS' emphasis on grouping companies by their sustainability-related risks and opportunities, we believe it is an elegant tool to help make our sustainability analysis process more effective. We have reviewed the 77 SICS industries and determined environmental and social factors that are particularly relevant to each industry (the same governance factors are used in every analysis). Aligning environmental and social factors at the SICS industry level enables us to tailor the analysis in a systematic way.

For illustrative purposes only. The information contained herein represents a simplified presentation of a complex process. The investment process is subject to change.

# CASE STUDY

## GPS Participacoes and Brazil's Informal Labor Market

In emerging markets, we believe long-term sustainability requires companies to consciously align profits with progress. GPS Participacoes is an example of a company gaining a competitive advantage by intentionally providing its employees with better working conditions and opportunities.

**BACKGROUND:** Informal employment is a significant part of EM economies and represents more than 40% of Brazil's non-agricultural workforce. Large informal labor markets are a logical response to excessive regulation, high taxes, weak or corrupt institutions, inadequate access to financing, limited educational opportunities or poor public services. While such conditions exist to varying degrees in all economies, they are more pronounced in EM.

Informal employment is also more prevalent among the young, women, impoverished and less educated. Informal labor markets may offer these populations easier access to employment, but the jobs also leave workers vulnerable to:

GPS' employees gain valuable benefits and organizational support to improve their skills, increase their earnings, and build their careers.

- Unpaid wages
- Forced overtime and extra shifts
- Hazardous conditions
- Unannounced layoffs
- Harassment and threats

In terms of broader economic effects, informal workers and businesses in EM are generally less productive than their formal sector counterparts. Additionally, informal workers lack access to social benefits, including pensions, healthcare and unemployment insurance.

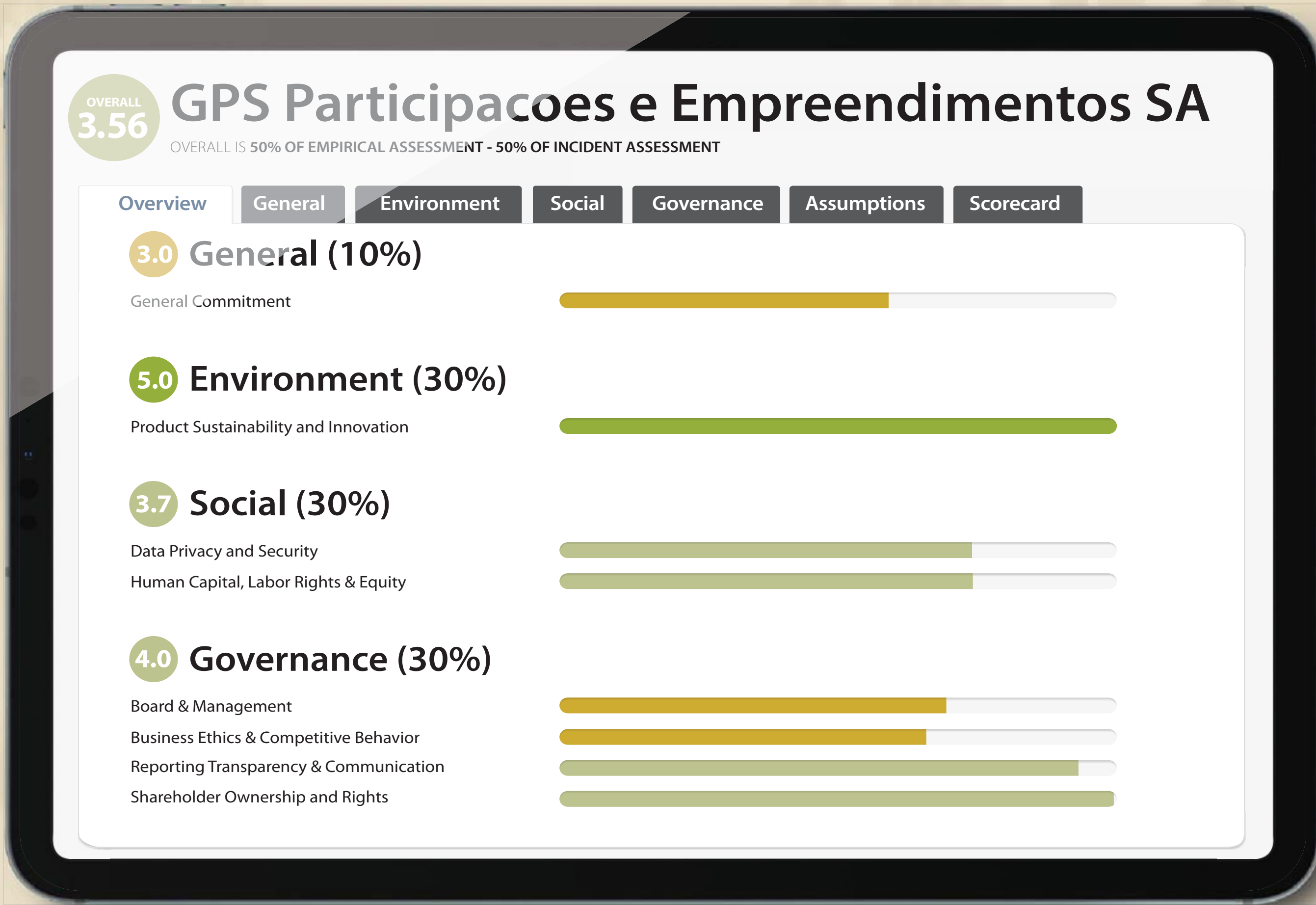
**PROGRESS:** GPS Participacoes is Brazil's leading outsourced services provider, offering integrated facilities management, security, indoor logistics, and maintenance and industrial services. In Brazil, outsourced services remains a fragmented and underpenetrated market. Although one of the largest companies in the industry, and with more than 100,000 workers, GPS has only about 3% market share.

Brazil's outsourced services industry is less than 1% of Brazilian GDP, half the industry's size in the US and UK. However, GPS and other reputable competitors are experiencing significant growth opportunities. Brazilian companies are more willing to outsource as they increasingly focus on core operations. And they also want to use reputable outsourcing firms given the growing sensitivity to ESG matters such as employee treatment, pay and benefits.

Employees, GPS' most important asset, provide the contracted services on client sites and regularly interact with the clients' employees or customers. Many of GPS' workers are from the lower rungs of Brazil's socioeconomic ladder. In an effort to provide a high level of service, GPS has intentionally designed its organizational structure, culture, compensation and benefits to align its workers' interests with those of the company and its clients.

By providing healthcare, incentive programs, vocational training, and other development and managerial opportunities, GPS gives its employees valuable benefits and organizational support to improve their skills, increase their earnings, and build their careers. In turn, GPS' investment in its workers lowers its turnover, motivates its employees to provide better client service, and overall, builds a more skilled workforce.

GPS takes a similarly farsighted approach to employee labor claims. When an employee has a legitimate dispute, the company typically settles and pays the claim up front, rather than dragging the worker through a prolonged and contentious dispute process. Its approach avoids acrimonious labor relations, is reassuring to clients and eliminates accumulating liabilities on the balance sheet.




Sustainability example is for illustrative purposes only and is subject to change without notice. The Sustainability Assessment score ranks each company on a scale of 1 (lowest) to 5 (highest) based on the investment team's proprietary assessment of the company's quality of corporate governance practices. Each score corresponds with a multiplier that applies a discounted (for scores less than 3), premium (for scores higher than 3) or neutral (score of 3) adjustment to the investment team's target price within the team's valuation analysis for each company.

With a decentralized structure and entrepreneurial culture, GPS' account managers have the autonomy to handle client relationships—much as they would in a small company. Managers are empowered to negotiate client contracts, service changes, and manage client satisfaction and profit and loss. In turn, contract managers' compensation is tied to the financial results of each client relationship.

An advanced information management system tracking clients' services, task completion and employee work history supports GPS' organizational structure and culture. It allows managers to monitor the operational and financial performance of each client. Further, an employee-focused software system enables hiring and training and provides job tracking and completion information—a valuable tool for the company, the employee and the client.

GPS is also taking steps to reduce its environmental impact. The company now uses concentrated and biodegradable chemical products to reduce pollution and battery-powered equipment to reduce its $CO_2$ emissions. These sustainable practices have been rolled out both internally and on client jobs.

GPS' efforts and outcomes are increasingly apparent within the social and environmental components of ESG. The company's ESG impact will continue to grow as it pulls more workers into Brazil's formal labor force, providing its workers with increased security and opportunity. Further, as it expands its client base, it will continue to introduce environmental best practices to a broad range of corporates across Brazil. GPS' decisions reflect our broader view of sustainability: making the right strategic decisions brings continuity to all stakeholders.

# CASE STUDY

## Metropolis Healthcare Helps to Improve Social Conditions

In emerging markets, we believe long-term sustainability requires companies to consciously align profits with progress. Metropolis Healthcare is an example of how a company can make social progress a business success.

**BACKGROUND—DIAGNOSTIC TESTING:** Diagnostic testing is a critical part of healthcare; it allows medical professionals to identify or monitor illnesses, determine predispositions to certain diseases and determine appropriate treatments. When performed properly, high-quality diagnostics can improve healthcare outcomes and reduce overall costs.

However, the penetration of high-quality diagnostic testing resources in low- and middle-income countries such as India is still considerably below developed markets. Equipment can be expensive, operating and maintaining labs requires well-paid professionals, and certain diagnostic tests are labor intensive. Rural and semi-urban areas have fewer options for patients to give specimens while transportation infrastructure makes specimen delivery to labs difficult.

Consumer diagnostic testing in India is also highly unorganized—with many small or standalone operations—which leads to varying levels of patient care, communication, test completion times and test accuracy.

**PROGRESS—DIAGNOSTIC TESTING:** Metropolis Healthcare is one of India's largest diagnostics companies, with a significant presence in western and southern India. Metropolis started out as a referral lab, working with hospitals and other institutions. As a result, Metropolis has a large clinical laboratory network, well established standard operating procedures and highly reliable services.

Metropolis now offers its services directly to the public in various ways. In recent years, the company has significantly expanded its patient service center network and its at home blood testing services have grown rapidly during the COVID-19 pandemic—now in nearly 120 locations. Metropolis is also expanding through acquisitions of smaller diagnostic testing businesses. As a result, Metropolis is formalizing a growing share of the industry and introducing its rigorous standards to more facilities.

Public demand for testing has been driven by several factors:

- Expanding middle class
- Rapid urbanization
- More awareness of preventive and wellness testing
- Rising prevalence of non-communicable diseases
- Increasing health insurance coverage (public and private)

While Metropolis' origin as a referral lab with expertise in specialized tests mean it is generally not a low-cost provider, it is trying to serve a broader set of patients in various ways. Metropolis and the National Aids Control Organization are working together in a public private partnership (PPP) to conduct HIV viral load testing at hundreds of antiretroviral therapy centers across India. Metropolis believes PPPs are emerging as an important tool to provide healthcare services, potentially offering Metropolis more opportunities to provide testing to a broader population.

In addition, during the pandemic Metropolis participated in Project Ummeed by providing PCR Tests for municipalities in Maharashtra state. Metropolis also worked with DBS Bank and ICICI Prudential in a COVID-19 testing program for underprivileged citizens and frontline workers. Through these programs, Metropolis has performed millions of tests. And as part of Metropolis' corporate social responsibility efforts, it teamed up with the Women's Empowerment Foundation to provide meals to healthcare workers

**BACKGROUND—REPRESENTATION AND EMPOWERMENT:** One way India is striving to develop its economy is by moving up the economic value chain. To accomplish this, the country needs more skilled workers. India has free and compulsory primary education for all children, and demand for secondary and tertiary education has increased. But overall education attainment still needs to improve in order to narrow India's skills gap. This is especially true for women. The education gap between boys and girls is significant and it shows up in labor data. Even before the pandemic, the labor participation for women rate stood at 21%, among the lowest levels across EM countries, although this statistic does not capture informal work which is typically low skill.

The security examples listed are not representative of the entire portfolio and are subject to change without notice. Security examples are based on holdings within a representative account managed in the Artisan Sustainable Emerging Markets Composite and individual client accounts may vary. Refer to page 24 for security weights.

At the same time, India is the first country to make corporate social responsibility (CSR) mandatory; domestic companies that reach certain financial thresholds must invest in areas such as education, skills training, poverty reduction and social enterprise projects. Addressing the education and workforce challenges, particularly for women, is critically important and would benefit greatly from CSR initiatives.

**PROGRESS—REPRESENTATION AND EMPOWERMENT:** Metropolis Healthcare's gender diversity goes significantly beyond India's current norms. The company's diversity starts at the top with Managing Director Ameera Shah, who manages day-to-day operations. She led Metropolis' transformation from a single lab founded by her father, Dr. Sushil Shah. The diversity continues throughout Metropolis: two women are on its seven-person board of directors, while women comprise close to 40% of its entire workforce.

Metropolis' corporate social responsibility initiatives also reflect how it values women.

- Too Shy To Ask is an app co-created with the Women's Empowerment Foundation. It is designed to be a safe and reliable place for teenagers and their parents get information about sexual and reproductive health, as well as gender equity and equality.
- Conquer PCOS is an initiative to raise awareness about PCOS (polycystic ovary syndrome). Early education and treatment can prevent life-long complications, including infertility.
- Metropolis also supports initiatives  for women in business. Its programs have included mentoring, peer-to-peer networks and executive coaching. Ameera Shah also speaks often about and directly to women in business and entrepreneurship.


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**Figure 1:** Share of Clean Energy Capacity Additions

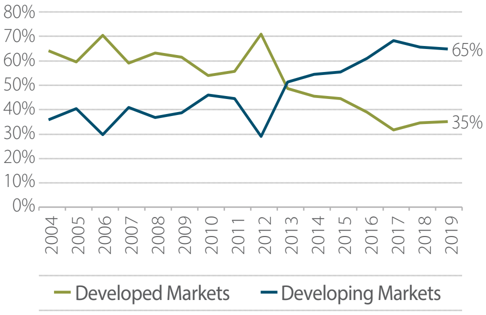
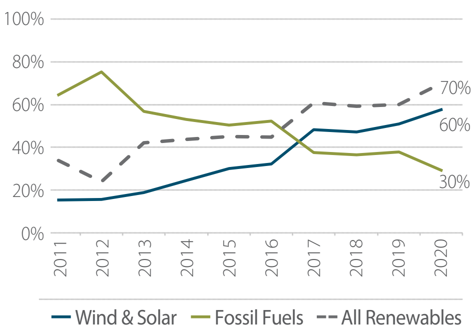



**Figure 2:** Developing Markets' Share of Net Capacity Additions*




*Net capacity additions: new capacity minus retiring capacity.

Source: BloombergNEF. Note: Developed markets include OECD countries, minus Chile, Colombia, Mexico and Turkey. Developing markets include all other economies. Numbers subject to change.

# TRANSITION TO CLEANER ENERGY

Growing EM economies and populations mean growing energy demand. Despite COVID-19's persistence, EM's 2021 energy consumption likely exceeded pre-pandemic levels.

The demand-driven need to expand energy infrastructure also provides numerous opportunities:

- Companies can help propel an energy revolution while establishing first-mover competitive advantages and unique access to growth
- Investors can get early access to attractive cleaner energy investments
- Countries can become more sustainable environmentally and economically

We already see significant changes. While fossil fuel capacity is still being added, since 2013 developing markets have accounted for over half of global clean energy capacity installations (Figure 1). As a result, developing markets' overall capacity mix has been shifting towards renewables (Figure 2).

And geopolitics could serve as a further catalyst. If the latest geopolitically driven bout of severe supply uncertainty and price volatility persists, we believe more countries will further diversify their energy supplies—a trend that will drive more demand for renewables.

## COUNTRY INITIATIVES, GOALS AND PROGRESS

A growing number of EM countries are already pushing to become cleaner energy producers.

- China set 2030 targets of more than 1200GW of installed wind and solar power capacity and 25% of primary energy consumption from non-fossil fuels. Nearly 10% of China's electricity generation already comes from wind and solar and it is a global leader in the solar value chain. Plus, China is the world's largest electric vehicle market, and the government wants new energy vehicles (battery electric, hybrid and fuel cell) to account for 40% of domestic sales by 2030.
- India had committed to 175GW of renewable energy capacity by 2022, but COVID-19 prevented India from reaching its target (150GW installed, as of late 2021). In 2021, India increased its 2030 renewable energy target with much of the increase expected to come from solar. India also plans to reduce its carbon emissions intensity by 45% over the same period.
- In Brazil, hydropower represents nearly two-thirds of its electricity production. However, the country is looking to diversify by ramping up solar and wind power capacity. Within EM, Brazil ranks among the top in terms of clean energy asset finance, and its wind and solar capacity is growing rapidly— solar capacity tripled from 2018 to 2020.

- In 2021, South Korea became the 14th nation to formally commit to achieving carbon neutrality by 2050. Already, independent power producers and state-owned power companies must generate 10% of their power from renewable sources. Korea is also focusing on hydrogen fuel cells. Its 2019 Hydrogen Economy Roadmap set 2040 targets of 6.2 million fuel cell electric vehicles, more than 1,200 refill stations and 41,000 hydrogen buses. And starting in 2022, standards for mandatory market supply of hydrogen power will be entirely separate from Korea's existing renewable energy standards.

- Chile already exceeded its 2025 target to generate 20% of its electricity from renewables. In 2021, at least a quarter of its energy was created from wind and solar plants. Chile's next goal is to generate 60% from clean energy sources by 2035.

## COMPANIES AT THE FOREFRONT OF POSITIVE CHANGE

As EM countries look to increase renewable energy capacity, domestic companies are stepping up to provide the needed equipment, technology and services, as well as reduce their own emissions

> We already see significant changes. While fossil fuel capacity is still being added, since 2013 developing markets have accounted for over half of global clean energy capacity installations.

- Aeris Energy is Latin America's largest wind turbine blade producer; wind energy is one of the most promising technologies to mitigate climate change. Aeris is also taking steps to reduce its environmental impact. In 2020, Aeris reduced its water consumption by 6%, recycled 27% of its waste, diverted 10% of its non-recyclable waste to co-processing facilities and set a "zero landfill" goal.

- Tongwei is a Chinese fully integrated global leader in solar power, with operations in polysilicon—a key raw material for solar photovoltaic (PV) cells—solar cells and PV powerplants. In terms of its own ESG, Tongwei has built PV powerplants to provide electricity in areas where it operates as part of a poverty reduction program, and it has integrated photovoltaic power generation within fisheries as an effort to promote green agriculture.

- Reliance Industries, India's largest company with one of world's biggest petrochemical businesses, is pivoting to renewable energy and decarbonization. Reliance wants to become one of the world's largest green energy infrastructure manufacturers, to help put India at the forefront of the world's green energy transition and to be a net carbon zero company by 2035. It plans to invest $10 billion over the next three years to build four gigafactories that will produce solar cells and modules, energy storage batteries, fuel cells and green hydrogen electrolysers. With regard to its existing petrochemical business, Reliance is taking steps to reduce its emissions, including carbon capture and conversion into useful chemicals, transitioning from transportation fuels to chemical building blocks, greater use of renewables for its own energy needs and increased recycling.

**SDG Relevance**

**Relevant Holding(s)**

Aeris, Tongwei, Reliance

The security examples listed are not representative of the entire portfolio and are subject to change without notice. Security examples are based on holdings within a representative account managed in the Artisan Sustainable Emerging Markets Composite and individual client accounts may vary. Refer to page 24 for security weights.

# ENGAGEMENT

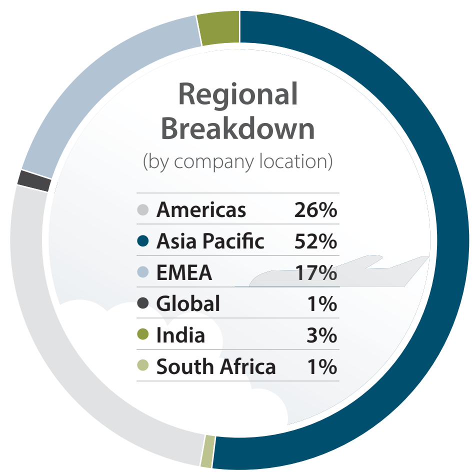
A natural part of our interactions with companies is engagement. In 2021, we conducted over 900 meetings with over 350 different companies. In addition to discussing ideas about the companies' prospects and strategies, we regularly ask management about relevant sustainability topics.

We want to know if their responses align with RepRisk trend analysis data and see first-hand how they react to our inquiries. We can gain a better understanding of an executive's depth of knowledge and prioritization of ESG matters when discussing directly than when reading an ethics statement or annual report. Under normal circumstances, our on-the-ground research also enables us to visit company facilities and other stakeholders.

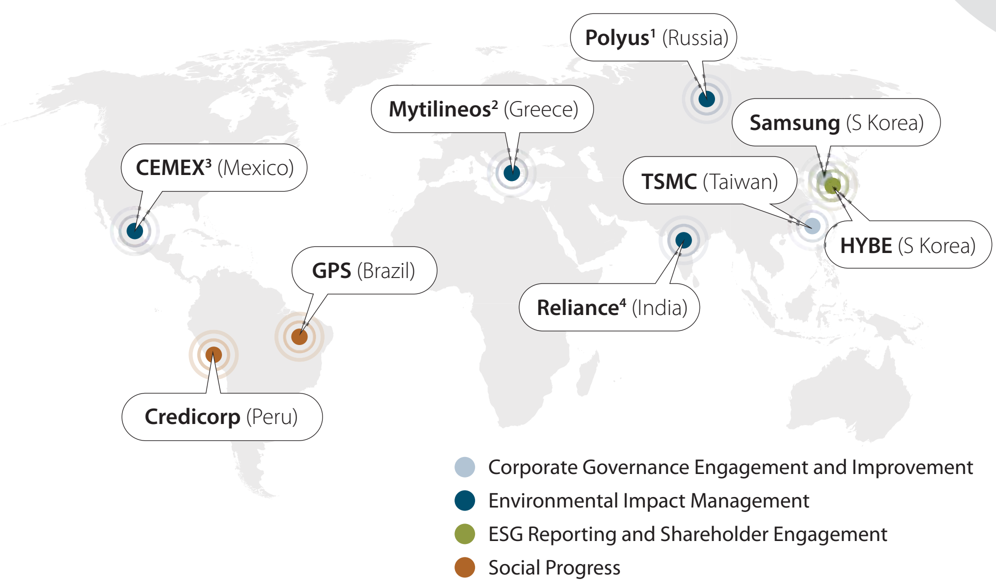
The information we gather from our travels and engagements further informs the empirical component of our sustainability assessments. When necessary, we will also communicate with a company's board of directors or advisory board. In some circumstances, we will actively participate in a shareholder meeting or otherwise publicly communicate our views about a particular company's business strategy.

Total company meetings in 2021: **945**

Number of companies: **368**




**In 2021**, we engaged with company management teams on a range of topics. Below is a representative sampling of the types of engagement and topics discussed.




[1]Mining Practices. [2]Renewable Energy Expansion. [3]Pollutive Production Process/Emissions Reduction Goals. [4]Fossil Fuels/Renewable Energy Transition.

The security examples listed are not representative of the entire portfolio and are subject to change without notice. Security examples are based on holdings within a representative account managed in the Artisan Sustainable Emerging Markets Composite and individual client accounts may vary. Refer to page 24 for security weights."

# PROXY VOTING

Proxy voting is an important aspect of our investment responsibilities which we believe is a valuable avenue for encouraging and improving governance practices. This is especially important in EM countries, where shareholder rights may not be as well established as in developed markets, and the ability to participate and effect change via proxy voting may be more challenging given varied governmental and regulatory environments.

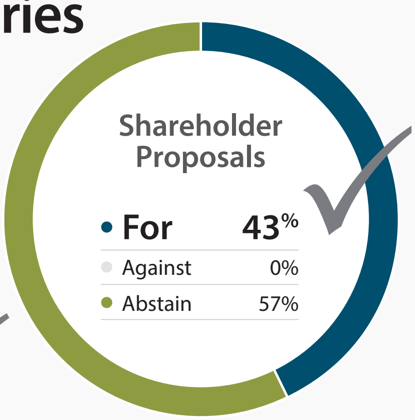
Among the most frequent matters we vote on are director appointments and remuneration, as well as corporate actions. We have gained considerable insight into the right types of leaders within the context of companies, industries and countries broadly, while frequent interactions with company executives and directors provide us valuable perspective on specific individuals.

We vote all shares held in the portfolios we manage unless our clients have specifically directed us not to vote or the costs or consequences of voting shares outweighs the benefits of voting. When making voting decisions, we follow the process and guidelines set forth in our Proxy Voting Policy, which is available on our website at www.artisanpartners.com and our full proxy voting record is available upon request.

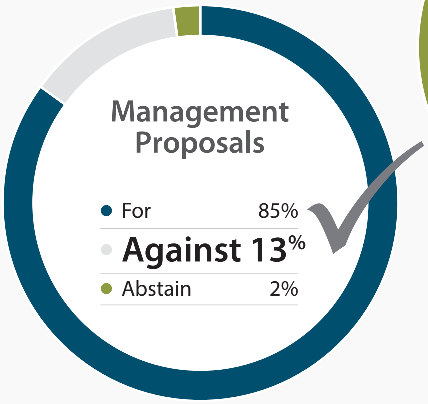
During the 2021 proxy season*
**we voted at 99 of 100 meetings**

We voted at meetings across
**21 different countries**

We vote against management proposals a meaningful number of times, and we support a significant percentage of shareholder proposals.




Total Proposals:
**14**




Total Proposals:
**933**

*12 months ended 30 June 2021.

# THOUGHT LEADERSHIP AND INDUSTRY ENGAGEMENT

Our first priority—and our primary focus—is managing our clients' assets, so we spend the majority of our time conducting research and making investment decisions which we believe to be in the best interest of our clients. We also recognize our responsibility to be transparent with investors and communicate our views, and we are committed to staying knowledgeable and engaged in the area of ESG, which continues to see rapid transformation globally.

At a firm level, Artisan Partners is a signatory to **PRI** and has established membership in the **SASB Alliance Program**.

While the persistence of COVID-19 limited opportunities in 2021, we have taken part in numerous conferences, panel discussions and other events in recent years. In 2019, we participated in NMS Management's Investment Management Forum for Endowments & Foundations, a CFA Society St. Louis expert panel on ESG, the Wharton IGEL's Women in Sustainability Leadership Series, and more.

*Signatory of:*

PRI Principles for Responsible Investment

SASB Sustainability Accounting Standards Board

SecureFutures Money Smart. Life Smart.

In 2020, Maria served as the keynote speaker at the exclusive SecureFutures2020 Conference where she shared insights on ESG investing in emerging markets. We also attended HSBC's Sustainability Forum, Banco Santander's ESG Trends in Latam, Bank of America Merrill Lynch's Middle East and North Africa Conference Macro Day Integrating ESG into the Investment Process and UBS LatAm ESG Virtual Series, among many others.

In addition to providing our regular monthly and quarterly updates and this, our second annual Sustainability Report, we shared our views on sustainability, the investment environment and important current events affecting EM.

For more information please visit:

www.ArtisanPartners.com | www.ArtisanCanvas.com

In order to be truly sustainable, EM companies need to be focused on enhancing long-term shareholder value by both building sustainable competitive advantages and acting in harmony with the environment and communities in which they operate.

This report focuses on the Artisan Partners Sustainable Emerging Markets Team's approach to sustainability and reports out on the team's prior year's activities. For more information about Artisan Partners or the Sustainable Emerging Markets team, please visit **www.artisanpartners.com**.

## Artisan Sustainable Emerging Markets Strategy Holdings (as of 31 December 2021)

| Security Name | SICS Sector | Country | End Weight |
|---|---|---|---|
| Aeris Industria E Comercio De Equipamentos Para Geracao De Energia SA | Renewable Resources & Alternative Energy | Brazil | 0.8 |
| AIA Group Ltd | Financials | Hong Kong | 1.4 |
| Alibaba Group Holding Ltd | Consumer Goods | China | 4.0 |
| Alpha Services and Holdings SA | Financials | Greece | 1.3 |
| Baidu Inc | Technology & Communications | China | 1.3 |
| Bangkok Bank PCL | Financials | Thailand | 0.5 |
| Bank Rakyat Indonesia Persero Tbk PT | Financials | Indonesia | 1.0 |
| Baozun Inc | Consumer Goods | China | 0.3 |
| Cemex SAB de CV | Extractives & Minerals Processing | Mexico | 0.8 |
| China High Precision Automation Group Ltd | Resource Transformation | China | - |
| China Traditional Chinese Medicine Holdings Co Ltd | Health Care | China | 1.5 |
| Commercial International Bank Egypt SAE | Financials | Egypt | 1.6 |
| Corp Inmobiliaria Vesta SAB de CV | Infrastructure | Mexico | 1.1 |
| Credicorp Ltd | Financials | Peru | 0.9 |
| E Ink Holdings Inc | Technology & Communications | Taiwan | 3.4 |
| Empresa Nacional de Telecomunicaciones SA | Technology & Communications | Chile | 0.6 |
| Estun Automation Co Ltd | Resource Transformation | China | 1.5 |
| FirstRand Ltd | Financials | South Africa | 1.2 |
| Focus Energia Holding Participacoes SA | Infrastructure | Brazil | 0.7 |
| Fomento Economico Mexicano SAB de CV | Food & Beverage | Mexico | 0.9 |
| Globant SA | Technology & Communications | Argentina | 1.1 |
| GPS Participacoes e Empreendimentos SA | Services | Brazil | 0.9 |
| Grupo Financiero Galicia SA | Financials | Argentina | 0.6 |
| Havells India Ltd | Resource Transformation | India | 1.7 |
| HYBE Co Ltd | Services | Korea | 1.6 |
| ICICI Bank Ltd | Financials | India | 2.5 |
| Indofood CBP Sukses Makmur Tbk PT | Food & Beverage | Indonesia | 0.6 |
| Itau Unibanco Holding SA | Financials | Brazil | 0.9 |
| JUMBO SA | Consumer Goods | Greece | 0.1 |
| Kakao Pay Corp | Technology & Communications | Korea | 0.7 |
| Kaspi.KZ JSC | Technology & Communications | Kazakhstan | 1.3 |
| Kingsoft Cloud Holdings Ltd | Technology & Communications | China | 0.7 |

| Security Name | SICS Sector | Country | End Weight |
|---|---|---|---|
| LUKOIL PJSC | Extractives & Minerals Processing | Russia | 1.9 |
| MediaTek Inc | Technology & Communications | Taiwan | 3.1 |
| MercadoLibre Inc | Consumer Goods | Argentina | 2.9 |
| Metropolis Healthcare Ltd | Health Care | India | 1.4 |
| MMC Norilsk Nickel PJSC | Extractives & Minerals Processing | Russia | 1.3 |
| Mytilineos SA | Infrastructure | Greece | 1.1 |
| NIO Inc | Transportation | China | 1.2 |
| Noah Holdings Ltd | Financials | China | 1.0 |
| Ozon Holdings PLC | Consumer Goods | Russia | 0.8 |
| Polyus PJSC | Extractives & Minerals Processing | Russia | 2.3 |
| Prosus NV | Technology & Communications | Netherlands | 2.4 |
| Public Bank Bhd | Financials | Malaysia | 1.0 |
| Reliance Industries Ltd | Extractives & Minerals Processing | India | 2.2 |
| Samsung Biologics Co Ltd | Health Care | Korea | 1.8 |
| Samsung Electronics Co Ltd | Technology & Communications | Korea | 7.4 |
| Sberbank of Russia PJSC | Financials | Russia | 1.6 |
| Sea Ltd | Technology & Communications | Singapore | 1.1 |
| Shinhan Financial Group Co Ltd | Financials | Korea | 0.9 |
| Sino Biopharmaceutical Ltd | Health Care | China | 2.3 |
| Sunny Friend Environmental Technology Co Ltd | Infrastructure | Taiwan | 1.4 |
| Taiwan Semiconductor Manufacturing Co Ltd | Technology & Communications | Taiwan | 9.7 |
| Tongwei Co Ltd | Food & Beverage | China | 0.7 |
| Trip.com Group Ltd | Technology & Communications | China | 0.8 |
| Turkiye Sinai Kalkinma Bankasi AS | Financials | Turkey | 0.4 |
| Vale SA | Extractives & Minerals Processing | Brazil | 1.3 |
| Vina Concha y Toro SA | Food & Beverage | Chile | 0.7 |
| Wuhan Raycus Fiber Laser Technologies Co Ltd | Technology & Communications | China | 1.6 |
| Yandex NV | Technology & Communications | Russia | 0.9 |
| Zhuzhou CRRC Times Electric Co Ltd | Resource Transformation | China | 3.4 |

Source: Artisan Partners/SASB. Based on a representative portfolio. Cash represented 3.7% of the total representative portfolio at 31 Dec 2021. Securities of the same issuer are aggregated to determine the weight in the portfolio. Securities named in this material, but not listed were not held as of the date reported. Portfolio holdings are subject to change without notice. Portfolio country classifications defined by the investment team may differ substantially from MSCI classifications in the Artisan Sustainable Emerging Markets Composite. Upon request, Artisan Partners will provide the portfolio's country breakdown according to MSCI methodology. The portfolio owns shares of China High Precision Automation Group Ltd, which has been suspended from trading and valued at $0.

For more information: Visit www.artisanpartners.com

**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. Investments in which the team has determined to have sustainable growth characteristics may underperform other securities and may not achieve their sustainable growth potential. A non-diversified portfolio may invest a larger portion of assets in securities of a smaller number of issuers and performance of a single issuer may affect overall portfolio performance greater than in a diversified portfolio. 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. 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 in Artisan Partners' Form ADV, which is available upon request.**

This summary represents the views of the portfolio manager as of 31 Dec 2021. 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.

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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