REPRINTED FROM MAY 8, 2023

THE WALL STREET TRANSCRIPT
Connecting Market Leaders with Investors

Exploiting Inefficiencies in the Emerging Market Debt Space

MICHAEL CIRAMI, CFA, is a managing director of Artisan Partners and a portfolio manager on the EMsights Capital Group. In this role, he is the lead portfolio manager for the Artisan Emerging Markets Debt Opportunities and Global Unconstrained Funds. Prior to joining Artisan Partners in September 2021, Mr. Cirami was Eaton Vance's co-director of emerging markets and the coordinating portfolio manager on the emerging markets team. Before that, Mr. Cirami worked at State Street Bank in Boston, Luxembourg and Munich, and at BT&T Asset Management in Zurich. Mr. Cirami earned a bachelor's degree (cum laude) from Mary Washington College and an MBA with honors from the William E. Simon School at the University of Rochester. He also studied at WHU Otto Beisheim School of Management in Koblenz, Germany.

SECTOR — GENERAL INVESTING

TWST: Do you work on specific funds at Artisan Partners?

Mr. Cirami: Yes. I manage a team here in Boston and we manage three different funds. One is the Artisan Global Unconstrained Fund, which is long/short. Another is the Artisan Emerging Markets Debt Opportunities Fund, which is a kind of go-anywhere, long-only emerging markets debt fund.

TWST: Could you discuss the Global Unconstrained Fund?

Mr. Cirami: Our Global Unconstrained Fund is our most flexible investment strategy and it focuses on sovereign investments in the emerging markets debt space, primarily. We also do some corporate investing. I would just say in general we have very much an investment-idea-focused approach. So, we are looking all over the world for investment opportunities on both the long side and the short side of the market.

The way I like to think about it is, the emerging markets space is extremely ripe with inefficiencies. There are many parts of it that are underexplored. We're looking for opportunities that aren't as prevalent in other parts of people's asset allocation mixes.

TWST: How is the fund set up? Are there certain sectors or certain types of holdings that you're looking for?

Mr. Cirami: I like to think in terms of risk factors. So, when I look at the world through primarily a sovereign lens, I think of foreign exchange, local interest rates, sovereign credit spreads, and then corporate credit spreads.

We're looking to take positions on those things. And obviously, you have to buy an instrument in order to get that. So that might look like buying a government bond denominated in dollars issued by the government of, let's say, Kenya, or buying a local-denominated bond issued by Mexico, so paying for the bond in Mexican pesos.

We're set up where we have different analysts and portfolio managers on the team that are focused on different parts of the world. We have someone who looks at Latin America, another person looks at Asia, and so on. And then, we have a specialist who looks in the corporate space for companies that operate in emerging markets countries.

So investments that we're making are really quite varied depending on the specific situations in individual countries. And what makes things interesting is these different types of risk factors.

So again, some of those asset types and risk factors — foreign exchange rates, sovereign credit, corporate credit spreads — even within one country can be very interesting and attractively priced, and some of them can be very overvalued. You often get these relative value possibilities within a singular country.

TWST: Do you want to highlight a couple of the companies or some of the government bonds from these countries that are a higher percentage of the fund?

Mr. Cirami: I think a little bit off the beaten path is Uzbekistan. It's probably in a part of the world that is not top of mind for many people, even in the emerging markets space. But what you have here is a country that went through a political change a number of years ago, and that led to a drastic change in policies where the country is opening up and becoming more integrated into the global economy.

And that, I think, means things are easier to transact, not just in the capital markets, but also with respect to just trade of goods, better respect for property rights, an improvement of the business environment in general, etc. So that's the general environment that could be appealing to us, and in this case is.

Then you have the investments that one might make, like the local currency debt, that we think has attractively priced yields. We think the currency is fairly valued. So you're getting fairly compensated for the exchange rate risk that you're taking to invest in the local market.

On the other hand, some of the external debt is just less interesting. So when I say external debt, think of the spreads that a government has to pay to borrow in a foreign currency. In this case, dollars.

For example, dollar bonds are in the 200, 300, 400 basis point range for spreads on Uzbekistan. And that compares to interest rates in the mid-teens for their local paper. So you can have vastly different types of pricing. That's one country that stands out at the moment that we think offers interesting and unique opportunities.

TWST: And maybe you could explain how the fund is a long/short fund?

Mr. Cirami: The way I think of long/short and how it applies for us has two parts. There's the pursuit of an investment idea. And maybe it's more normal to think of investment ideas as long only, but we look for investments that just look very overvalued, in which case, we'll take short positions. So you can almost think of that as the pursuit of alpha looking in both directions — long and short.

But then there's a category of shorts, and these would be the shorts that we would put in the book to help us manage risk, or better isolate the risk factors or positions that we want to take.

A very simple example of this would be if we were interested in credit spreads in a country like Brazil. We might buy dollar denominated debt issued by the Brazilian government and then short U.S. Treasuries against that. You're isolating that investment to just the spread component, so you're really indifferent as to what happens with the U.S. interest rates.

So that would be one example, and I'll give another example which would be further out on this spectrum. Something that might be a little bit more exotic would be shorting some sort of asset that might have a high correlation with another asset that you owned, even if you didn't have a strong view and didn't think it was going to lead to an alpha opportunity.

Let me give a very specific example. I'll use oil as this base risk factor. Let's say the debt in Nigeria looked very interesting and compelling and spreads were quite attractive. We would seek to buy dollar bonds, dollar debt issued by the Nigerian government.

One thing that you're clearly exposed to is the price of oil. Nigeria is a major oil producer, and the price of oil is a key determinant of what the fiscal situation for Nigeria looks like.

We might look to short a country that has similar characteristics with respect to oil, but that we thought was fairly valued. And this would then help reduce the risk of the portfolio and really isolate key risk factors that we were looking to get exposure to, which in this case is Nigeria, its own policies and the like.

So those are some of the ways that we will use short positions to help augment not only the portfolio's return potential but manage risk around the various positions that we're taking.

TWST: And did you want to talk about the Emerging Markets Debt Opportunities Fund?

Mr. Cirami: Our Emerging Markets Debt Opportunities Fund is, in many respects, driven by the same process of looking for investment ideas like we would undertake for our Global Unconstrained Fund. But we're limiting ourselves to long investments in the emerging markets base. We're looking for the best opportunities that emerging market's debt has to offer.

I think many people approach the asset class with a benchmark-centric view. They'll either let the benchmark define their investment universe or they don't deviate too far away from it with respect to countries that are not part of the benchmark. And we take a very benchmark-agnostic view. We just simply try to go where the best opportunities are.

And our starting point for building our portfolio is a blank sheet of paper. We build the portfolio from the bottom-up based on which countries we think offer the best risk-adjusted return possibilities. It's a highly flexible mandate that's trying to harvest the best opportunities within that asset class.

"And our starting point for building our portfolio is a blank sheet of paper. We build the portfolio from the bottom-up based on which countries we think offer the best risk-adjusted return possibilities. It's a highly flexible mandate that's trying to harvest the best opportunities within that asset class."

TWST: Are some investors drawn to these funds not only because of the return, but also because they can invest in developing economies?

Mr. Cirami: I think that's right. But the way that I would describe it is that emerging markets, and particularly the debt segment of emerging markets, are a great sandbox to play in and invest in. There are so many things that are overlooked and quite inefficient. There are a tremendous number of opportunities.

And part of the reason why I think it goes hand in hand with the under-ownership of these assets is because a lot of institutions haven't had a lot of experience with emerging markets debt, and maybe they don't have an allocation to it.

When people start to engage with the asset class, not only are there ripe opportunities because of what I just said, but they also really incrementally add to their own portfolio because they don't have those risk factors to begin with. It's like two sides of a coin. And to me, that's the most compelling reason to invest in emerging markets debt.

I know that there's this narrative out there about emerging markets growth, that it's quicker than the developed world on average. And then there's this sort of long-term convergence play. I don't really 100% buy into that. And certainly, I don't think that's the reason for investors to engage in the asset class. I think people should be there because it's inefficient, and there's great risk-adjusted-return opportunities**.**

TWST: Was the sector impacted, especially the debt sector, by the COVID pandemic?

Mr. Cirami: It certainly was impacted. If you remember, the price of oil and the conflict between Saudi and Russia kind of happened around the same time. That had a significant impact on these emerging markets countries. The way I think about it is that the dynamic wasn't too dissimilar to what was going on and familiar with people in the developed world.

The traditional asset classes that people owned, whether it was U.S. equities or maybe high yield spreads, all saw volatility during the COVID period. But what stuck out for emerging markets was that COVID was like an accelerant. If a country was headed down a bad path, COVID accelerated that journey.

I think some policymakers had good instincts or good policies in general and some of those countries doubled-down on those policies that they were putting in place already.

The other piece, which is very specific to emerging markets, is that emerging markets countries, for the most part, couldn't really afford to shut down like the developed world did in many cases. We can put China to the side on this one — I think of it as its own thing, and had its own dynamics, clearly.

But emerging markets countries needed to stay open to a much greater extent. The opportunities for remote work and the like just weren't there to the same extent. So they had no choice but to really grind through that first year of the pandemic. And the populations are younger, which I think helped from a health perspective.

So those were some of the key dynamics at play in the emerging market space during that period.

I'll just maybe add one other piece. Budgets were extended everywhere, in developed worlds and emerging markets. Many of these emerging markets countries can't afford the budget expansion to the same degree that the developed markets can, or seem to be able to. So we have a stock of emerging markets countries that are closer to default, and we've seen some of that this past year.

This is going to be something that's going to weigh on the asset class a bit. But to me, this is isolated to problem countries that can be avoided through active management.

TWST: What advice would you give people who might be interested in investing in emerging markets generally, or in debt in particular, and some of the risks involved with investing in the sector?

Mr. Cirami: I think that when people hear about emerging markets, they think of risk, and they think of outsized risk. And I don't think that is a great way to think about the asset class. There are certainly things that are risky in it, and there are countries and credits that are very high quality and much lower on the risk spectrum.

I think of emerging markets as something that sits well within the risk spectrum of traditional asset classes that are out there, whether it's debt or equity. It's really how one seeks to exploit the opportunities within the asset class that really drives the overall risk profile.

"I think of emerging markets as something that sits well within the risk spectrum of traditional asset classes that are out there, whether it's debt or equity. It's really how one seeks to exploit the opportunities within the asset class that really drives the overall risk profile."

So, to keep that short, maybe emerging markets debt does not have to be as risky of an endeavor as I think it is often made out to be. I think that's one of the things that we've been trying to demonstrate through our Emerging Market Debt Opportunities Fund.

That's just one thing that certainly comes to mind when thinking about how investors might want to think about the emerging markets debt space.

TWST: Are many of these emerging market nations and economies going to go through a lot of the changes we're seeing in the more industrialized world, with things like automation and artificial intelligence?

Mr. Cirami: It's a very interesting question. These are headwinds, opportunities and challenges for everyone. We see similar dynamics at play in EM countries. Some of these countries are highly developed, and I wouldn't want people to think that because they're emerging markets there's a deficiency around that. Think about Central Eastern Europe as an example. There's a ton of human capital there and they are taking advantage of automation and AI, like anyone else.

China is also classified as an emerging markets country and they're one of the leaders in AI. There's that segment of the market that probably views this dynamic as opportunity.

Then there are maybe other segments that are more challenged by it. And you can think of either industries, or countries that are dominated by industries, where there's a lot of manual labor. You're thinking about job losses and such. This is certainly a dynamic for a handful of countries as well.

So, emerging markets are really not immune to any of the major issues that dominate our thinking in the U.S. or any other developed country.

TWST: Do you think a lot of these economies are going to be impacted much by the move to bring back some industries to the United States, or at least North America?

Mr. Cirami: I would describe it almost exactly the same, as opportunities and challenges. Some of those jobs and the like are coming back directly to the U.S. and others are clearly going to neighboring countries, or countries that we perceive as being on more friendly terms with the U.S. than where people expect the U.S.-China relationship to go.

Government officials all over the world are trying to figure out how to take advantage of these shifting supply chains. And obviously this has captured a lot of people's interest post-COVID, but it's not necessarily new. We've seen shifting supply chains for decades; things shifted to China and away from other parts of Asia, Japan and Korea. Pre-COVID things were shifting from China to other places like Vietnam as an example.

I'll go back to that accelerant concept I used earlier. Perhaps this is just happening at a slightly quicker pace. Regardless, it's going to be an opportunity for many countries — business in this sense is in play. I think Mexico is trying to work hard to make sure they capture an outsize share of this disruption.

TWST: Is there anything we haven't talked about that you'd care to bring up? Anything about the way the funds are structured that investors might be particularly interested in?

Mr. Cirami: I would highlight the investment universe that we try to exploit. I've talked about how broad it is, but I'd like to compare it to some of the benchmarks.

If you were to look at common benchmarks that people use to describe the universe for emerging markets local debt, it's typically a little more than 20 countries that are represented in the popular benchmarks.

But the opportunity for investors really is much greater than that. There are probably 60-80 countries that investors could pick through for investment opportunities. We talked about Uzbekistan earlier. That's a country that's not represented at all in all the benchmarks that people use.

Having this broad universe is really key. It directly defines the opportunity set. And I think the more opportunities that an active investor can pick through, the better chance they have of finding things that are truly mispriced. So that's one key.

The other is the long/short nature of our Global Unconstrained Fund. There aren't a lot of options out there in this public funding space that are really able to exploit opportunities on both sides of the market, and also use shorting as a tool to help manage risk. So that is also a very key differentiator.

TWST: Thank you. (ES)

MICHAEL CIRAMI, CFA
Portfolio Manager & Managing Director
Artisan Partners
(800) 399-1770
www.artisanpartners.com

volatility and have a higher degree of credit and liquidity risk than bonds with a higher credit rating. Use of derivatives may create investment leverage and increase the likelihood of volatility and risk of loss in excess of the amount invested.

High Yield Spread is the percentage difference in current yields of various classes of high-yield bonds compared against investment-grade corporate bonds, Treasury bonds, or another benchmark bond measure.

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.

5/17/2023— A23704L-vR