

# An Analyst's Approach to Valuation

Artisan Partners Sustainable Emerging Markets Team

PORTFOLIO MANAGER  
Viewpoints

March 2022

Artisan Partners Sustainable Emerging Markets Team is built upon two foundational beliefs about emerging markets (EM). First, that EMs are growing and will continue outpacing developed markets over the long term. Second, that EM will remain relatively more turbulent than developed markets. As a result, the team believes that companies possessing unique access to growth and/or a sustainable competitive advantage are better positioned to capitalize on EM growth over time.

Given EM's inherently more volatile nature, the insight and good judgment that come with experience are critical to successful investing. As such, the team takes a local approach to researching potential investments, focusing on those with the most direct exposure—those that the team believes are the best and truest representations of the long-term, risk-adjusted upside potential in EM.

Once the team identifies a company it believes has unique access to growth and/or a sustainable competitive advantage, it employs a rigorous investment process to determine whether the opportunity is a good fit for the portfolio. Here, Gurpreet Pal, Sustainable Emerging Markets team analyst whose coverage includes India, discusses how the team thinks about valuation in the context of EM investing.

## A Bottom-Up Approach to Emerging Markets Investing

Our team's approach to valuation is a natural extension of our stock-selection process. Our rigorous, bottom-up approach is designed to identify compelling opportunities in EM which we believe are attractively exposed to long-term secular trends and which possess a sustainable competitive advantage.

Given the inherent volatility of many EM countries, building conviction in names for potential portfolio inclusion can take some time. Our idea-generation process typically starts with extensive team travel. During COVID-19, we leveraged our deep relationships with company management teams, sources across industry supply chains and resources within the investment industry in lieu of travel. Many EM companies have also increased external communication and availability to investors. We strongly believe any universe-screening process by itself is unable to identify all the critical characteristics we seek in potential investments; many EM companies have relatively shorter track records and don't necessarily have the rigorous processes and reporting capabilities of more developed counterparts.

Building sufficient conviction in a company can take many months or even years—an effort we believe worthwhile to ensure we are identifying quality companies that best represent the long-term growth potential of EM. Once we believe we've identified a company possessing unique access to growth and a sustainable competitive advantage, we begin our in-depth financial analysis, including a historical analysis of the income statement, balance sheet and cash flows. We then build a five-year forecast of the target company to understand the drivers of its success. Our goal here is to identify companies that are undervalued relative to their sustainable growth earnings potential.

We then conduct a strategic analysis and a sustainability assessment to understand the competitive environment in which a company is operating and if it is being a good steward to its shareholders, stakeholders,



**Gurpreet Pal**  
Analyst

20 Years Investment  
Experience



**Maria Negrete-Gruson, CFA**  
Portfolio Manager

33 Years Investment  
Experience

A R T I S A N



P A R T N E R S

employees and communities at large. Our proprietary sustainability assessment uses a combination of incident-based data and team-driven empirical analysis designed to capture a company's long-term direction and degree of change across multiple environmental, social and governance (ESG) factors.

Next, we perform a rigorous country risk assessment based on the most relevant macroeconomic factors for each EM country. Each EM country is in a different phase of its economic, social and political development, and not all countries face the same risks. Therefore, we believe it is important to compare a country to its own history and development, identifying improvements or deterioration over time and assessing how those factors may impact a company's ability to capitalize on its competitive advantages.

### Assessing Valuations in a Changing Marketplace

The final step in our bottom-up, stock-selection process is determining an appropriate valuation multiple and calculating a target price. To do so, we consider a company's sustainability assessment, country risk, its peer group comparison and its own trading history, as well as other company-specific factors. Once we establish a normalized sustainable ROE and a valuation multiple, we are able to determine a price target for that security.

Given how rapidly circumstances can change, we typically won't automatically eliminate potential investments based on high valuation alone—whether at the country or individual stock level. Though we may believe a company or country overall to be richly valued relative to peers, those valuations could be justified. (And the reverse could be true—a cheaply valued stock or country may be cheap for a reason.) Then, too, valuations change—revaluing to a point we find interesting in the future. We also believe it is important to consider valuations in the context of sustainable earnings and material upside, and to remain patient with companies we believe possess these characteristics.

### A Case Study in Valuations

The best way to understand our rigorous approach to valuation is to examine it in practice. The general consensus is equity valuations in India have long been rich. This has been true for many of India's banks, despite an industry backdrop of heightened macroeconomic volatility and operational issues stretching back more than a decade.

Following the global financial crisis, Indian companies continued borrowing to finance ongoing growth, despite the meaningfully slower macroeconomic environment. As a result, corporate balance sheets became over-levered, bank exposure to non-performing assets (NPAs) grew and loan growth slowed meaningfully. The Indian government and Reserve Bank of India (RBI) eventually made efforts to help India's banks address their NPAs, including reforms to accelerate the bankruptcy process, more recourse for banks and public sector bank recapitalization.

These developments in India's financials sector have not gone unnoticed. Many investors have been drawn to franchises such as HDFC Bank, one of India's largest private banks, which has benefited from its avoidance of some higher risk corporate debt segments. HDFC Bank's consistent growth, lower stressed asset exposure and premium multiple have attracted those seeking to invest conservatively in India's growth.

However, we believe there are other beneficiaries of the improved backdrop with more attractive valuations. For example, we hold ICICI, another of India's leading private banks. We first purchased ICICI in 2012. Though this was before much of the ongoing reform was underway, the company had already started consolidating its loan book and had a strong capital position relative to both private-sector peers and public-sector banks. In subsequent years, we believe ICICI has made smart, strategic choices to further improve its position in terms of profits and progress.

ICICI has used its solid brand, well-scaled franchise and extensive domestic branch network to improve asset quality, grow rapidly—even in the recent difficult environment—and improve margins. It also possesses unique access to India's ongoing domestic economic growth as well as the return of corporate capital expenditures. As a result, we believe ICICI's valuation and outlook remain compelling.

In terms of ESG, ICICI's CEO stepped down in 2018 as the company's board conducted an investigation into questionable loans granted to a family member. For us, the investigation was an important governance event demonstrating how seriously the bank took the allegations. Since then, the new CEO, a longtime ICICI employee, has had a positive impact. The bank's digitalization efforts have been impressive and are helping to serve India's large unbanked and underbanked populations, including farmers, small businesses and female entrepreneurs. ICICI offers a universal banking application (app), another app available in regional languages, as well as an app that allows its employees to submit loan applications remotely and to provide customers pre-approved loan offers. ICICI's digital services were especially beneficial.



We believe the company is well positioned to drive sustainable earnings growth in the future, particularly as India's lending and regulatory environments improve and reforms continue. This investment in a quality business with unique access to growth and a sustainable competitive advantage was one we might miss if we were to be deterred simply by dint of country-level valuation or the factors unique to ICICI.

## Valuation as Part of a Successful Approach to Emerging Markets

We believe valuation discipline is a key aspect of EM investing—particularly given the challenging nature of conducting in-depth research in countries with varying degrees of development and risk levels. We believe our first-hand, local experience in EM, rigorous financial, strategic, sustainability and country risk analysis, as well as a disciplined approach to valuation, allow us to invest in businesses that best represent emerging markets' sustainable growth potential.

---

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

---

Carefully consider the Fund's investment objective, risks and charges and expenses. This and other important information is contained in the Fund's prospectus and summary prospectus, which can be obtained by calling 800.344.1770. Read carefully before investing.

Current and future portfolio holdings are subject to risk. The value of portfolio securities selected by the investment team may rise or fall in response to company, market, economic, political, regulatory or other news, at times greater than the market or benchmark index. 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 portfolio's environmental, social and governance ("ESG") considerations may limit the investment opportunities available and, as a result, the portfolio may forgo certain investment opportunities and underperform portfolios that do not consider ESG factors. Non-diversified portfolios may invest larger portions of assets in securities of a smaller number of issuers and performance of a single issuer may have a greater impact to the portfolio's returns. 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.

This summary represents the views of the investment team as of 31 January 2022, and is subject to change without notice. Security examples are for informational purposes only and are not representative of the entire portfolio. There is no guarantee that investment within the securities mentioned will result in profit. While the information contained herein is believed to be reliable, there is no guarantee as to the accuracy or completeness of any statement in the discussion. This material is for informational purposes only and should not be considered as investment advice or a recommendation of any investment service, product or individual security.

For the purpose of determining the Funds' holdings, securities of the same issuer are aggregated to determine the weight in the Fund. Securities named in the Commentary; but not listed here are not held in the Fund(s) as of the date of this report. The holdings mentioned above comprise the following percentages of a representative account within the Composite's total net assets as of 31 Dec 2024: ICIC Bank Ltd 4.1%.

**Return on Equity (ROE)** is a profitability ratio that measures the amount of net income returned as a percentage of shareholders equity.

This material is provided for informational purposes without regard to your particular investment needs. This material shall not be construed as investment or tax advice on which you may rely for your investment decisions. Investors should consult their financial and tax adviser before making investments in order to determine the appropriateness of any investment product discussed herein. We expressly confirm that neither Artisan Partners nor its affiliates have made or are making an investment recommendation, or have provided or are providing investment advice of any kind whatsoever (whether impartial or otherwise), in connection with any decision to hire Artisan Partners as an investment adviser, invest in or remain invested in any funds to which we serve as investment adviser or otherwise engage with Artisan Partners in a business relationship.

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 Funds, is wholly owned by Artisan Partners Holdings LP.

© 2025 Artisan Partners. All rights reserved.

A R T I S A N



P A R T N E R S