



Artisan International Small Cap Fund

MONTHLY
Commentary

Investor Class: ARTJX

As of 31 December 2016

Commentary

2016 was a challenging year for the team's investment approach. Not only was our investment style emphasizing sustainable growth out of favor, but we were also poorly positioned for an improving backdrop for the global economy and commodity markets.

We began the year with a cautious, even bearish view of the world outside of the US, struggling to find growth opportunities in most regions. At that time, we believed multiple influences contributed to a risk-off climate for equity markets—the Fed had just raised rates for the first time in many years, credit markets were selling off driven by the collapse in commodities, and China's economy appeared to be slowing materially. There was capital flight out of emerging markets, and the renminbi was under pressure due to foreign exchange flows. Though the economic backdrop improved in subsequent months as oil prices rose and China engineered a recovery, interest rates reached all-time lows and concerns lingered around Brexit, the US election and the European banking system.

While top-line growth was difficult to find, we were particularly attracted to companies with strong cash flow and earnings visibility. That bottom-up search for sustainable growth contributed to above-benchmark weightings in defensive sectors (e.g., consumer staples, telecom), which proved a headwind as sentiment improved and interest rates moved sharply higher. We also missed out on some of the stronger-performing areas of the market as we had little exposure to cyclical commodities (i.e. energy and metals & mining). We generally avoid cyclical commodity companies that are largely dependent on forces outside of company control. By contrast, we seek high value-added companies that can innovate or provide a unique solution—however, this was a hindrance in a commodities-led rally.

We also had a larger-than-usual number of stock-specific upsets. Wirecard and Ginko International, our two largest holdings, cost the portfolio roughly 2% of performance YTD. Wirecard, a payment processing company, suffered big declines in Q1 due to accusations of criminal misconduct, to which we ascribed no merit. The stock has since recouped a good portion of its losses. Ginko is contending with heightened price competition online. Over time, we believe the lower marketing spend associated with online sales should help counteract the impact of lower prices. Despite the setback, we're still attracted to Ginko's market-share dominance in the fast-growing Chinese market.

Toward the end of the summer, we became more constructive in our growth outlook—when long bond yields began to signal that higher inflation was expected—and even more so after the US election when we identified fundamental underpinnings for a likely reacceleration in global growth. In Q4, we added to financials, purchasing Germany-based Aareal Bank and Denmark-based Sydbank as we believe the potential for alleviation of regulatory headwinds against a backdrop of widening spreads make these holdings more attractive now. At the same time, we reduced or sold a number of our telecom and consumer staples names, principally on valuation grounds.

We are disappointed in our recent results and the sharpness of the underperformance. However, previous periods of underperformance and subsequent recoveries in our 20-plus years of investing have reinforced upon us the importance of adhering to process. We continue to believe that by investing in good quality companies with strong earnings growth and being disciplined about valuation, we will deliver superior results over the long term.

Portfolio Details

| | |
|---------------------------|------------------|
| Net Asset Value (NAV) | \$19.80 |
| ARTJX Inception | 21 December 2001 |
| Expense Ratios | |
| Annual Report 30 Sep 2016 | 1.51% |
| Prospectus 30 Sep 2015 | 1.52% |

Top 10 Holdings (% of total portfolio)

| | |
|--|--------------|
| Ginko International Co Ltd (Taiwan) | 4.8 |
| Wirecard AG (Germany) | 4.8 |
| Comet Holding AG (Switzerland) | 4.8 |
| InterXion Holding NV (Netherlands) | 4.6 |
| Takkt AG (Germany) | 4.2 |
| Scandinavian Tobacco Group A/S (Denmark) | 3.8 |
| Dignity PLC (United Kingdom) | 3.4 |
| Aareal Bank AG (Germany) | 3.4 |
| Elis SA (France) | 3.3 |
| AA PLC (United Kingdom) | 3.2 |
| TOTAL | 40.3% |

Source: Artisan Partners/FactSet (MSCI).

Sector Diversification (% of total portfolio equities)

| | Fund | EAFE SC ¹ |
|----------------------------|---------------|----------------------|
| Consumer Discretionary | 17.4 | 16.1 |
| Consumer Staples | 18.6 | 6.9 |
| Energy | 0.5 | 3.0 |
| Financials | 9.9 | 11.3 |
| Health Care | 8.7 | 7.0 |
| Industrials | 17.1 | 21.9 |
| Information Technology | 16.9 | 10.4 |
| Materials | 2.4 | 9.3 |
| Real Estate | 1.5 | 11.1 |
| Telecommunication Services | 5.6 | 1.1 |
| Utilities | 1.4 | 1.9 |
| TOTAL | 100.0% | 100.0% |

Source: Artisan Partners/FactSet (GICS)/MSCI. Cash represented 7.5% of the total portfolio. ¹MSCI EAFE Small Cap Index.

Investment Results (%)

| As of 31 December 2016 | Average Annual Total Returns | | | | | | | |
|---------------------------|------------------------------|------------------|------------------|--------|-------|-------|-------|-----------|
| | MTD ¹ | QTD ¹ | YTD ¹ | 1 Yr | 3 Yr | 5 Yr | 10 Yr | Inception |
| Investor Class: ARTJX | 2.33 | -9.31 | -12.88 | -12.88 | -5.21 | 8.17 | 3.31 | 10.88 |
| MSCI EAFE Small Cap Index | 2.87 | -2.86 | 2.18 | 2.18 | 2.10 | 10.56 | 2.95 | 9.67 |
| MSCI EAFE Index | 3.42 | -0.71 | 1.00 | 1.00 | -1.60 | 6.53 | 0.75 | 5.45 |

Source: Artisan Partners/MSCI. ¹Returns for periods less than one year are not annualized.

Past performance does not guarantee and is not a reliable indicator of future results. Investment returns and principal values will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than that shown. Call 800.344.1770 for current to most recent month-end performance.

Region/Country Allocation (% of total portfolio equities)

| REGION | Fund | EAFE SC ¹ |
|-------------------------|---------------|----------------------|
| EUROPE | 80.7 | 55.1 |
| United Kingdom | 16.4 | 17.5 |
| Germany | 16.2 | 6.2 |
| France | 9.5 | 4.2 |
| Italy | 8.4 | 3.8 |
| Denmark | 7.8 | 1.5 |
| Spain | 6.2 | 2.5 |
| Sweden | 6.1 | 5.2 |
| Switzerland | 5.1 | 4.6 |
| Netherlands | 5.0 | 2.1 |
| PACIFIC BASIN | 8.1 | 43.6 |
| Japan | 4.8 | 31.7 |
| Singapore | 2.8 | 1.7 |
| Hong Kong | 0.5 | 2.4 |
| EMERGING MARKETS | 7.5 | — |
| Taiwan | 5.2 | — |
| Russia | 1.6 | — |
| South Africa | 0.7 | — |
| AMERICAS | 3.7 | — |
| Canada | 3.7 | — |
| MIDDLE EAST | — | 1.4 |
| TOTAL | 100.0% | 100.0% |

Source: Artisan Partners/FactSet (MSCI). ¹MSCI EAFE Small Cap Index. Countries held in the index, but not held in the portfolio, are not listed.

Team Leadership (Pictured left to right)



| Portfolio Managers | Years of Investment Experience |
|----------------------|--------------------------------|
| Mark L. Yockey, CFA | 36 |
| Charles-Henri Hamker | 27 |

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.

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. 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. Growth securities may underperform other asset types during a given period.

MSCI EAFE Small Cap Index measures the performance of small-cap companies in developed markets, excluding the US and Canada. MSCI EAFE Index measures the performance of developed markets, excluding the US and Canada. The index(es) are unmanaged; include net reinvested dividends; do not reflect fees or expenses; and are not available for direct investment.

For the purpose of determining the Fund's holdings, securities of the same issuer are aggregated to determine the weight in the Fund. The discussion of portfolio holdings does not constitute a recommendation of any individual security. These holdings comprise the following percentages of the Fund's total net assets as of 31 Dec 2016: Sydbank A/S 2.0%. Securities named in the Commentary, but not listed as a Top Ten Holding or not listed here are not held in the Fund as of the date of this report. The portfolio managers' views and portfolio holdings are subject to change and the Fund disclaims any obligation to advise investors of such changes.

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