



Artisan Small Cap Fund

MONTHLY
Commentary

Investor Class: ARTSX

As of 31 December 2016

Commentary

Continuing their post-US election run, global developed markets finished Q4 overall in the black. Though emerging markets were down modestly during the fourth quarter, they were up for the year, as were the majority of global developed indices. Oil prices were also up in Q4, contributing to the energy and materials sectors' solid performance. The fourth quarter was dominated by cyclical stocks, aiding value's meaningful outperformance versus growth for the quarter and the year. Small-cap stocks similarly significantly outperformed their larger counterparts over both periods. As expected, the Fed finally raised the benchmark rate by a quarter point in December.

Our portfolio trailed the Russell 2000® Growth and the Russell 2000® Indices in the fourth quarter, weighing on full-year relative performance amid what appeared to be a preference shift from the secular to the more cyclical. We had observed some fundamental underpinnings to this rotation—including the potential for a broadening of growth after a long period of growth scarcity—and had begun making some portfolio shifts, though not quickly or significantly enough to bolster Q4 performance. We will further discuss Q4 and year-to-date performance and portfolio positioning in our forthcoming quarterly commentary.

Among our largest detractors were DexCom and Nevro. Shares of DexCom have been pressured by a modestly more competitive environment for its continuous glucose monitoring systems along with sales weakness following a product recall earlier in 2016. Though these headwinds may persist in the near term, we believe several attractive and meaningful catalysts still lie ahead for DexCom.

Nevro was impacted by the broad Q4 rotation away from health care stocks. There is also growing competitive intensity from larger competitors eager to penetrate the spinal cord stimulation market. We believe there is ample potential for Nevro as it penetrates new markets, though we trimmed our exposure in Q4 as we watch how Nevro executes from here.

Cognex and SVB Financial were among our top Q4 contributors. SVB Financial is among the more differentiated banking franchises given its focus on and relationships in Silicon Valley. Investors' heightened expectations for rising interest rates and corporate tax reform precipitated strong post-election price appreciation, as SVB could be a major beneficiary of these developments.

Cognex continues its exceptional execution, growing across segments and geographies despite a relatively subdued global manufacturing capex environment. Cognex is also generating attractive gross margins and high levels of free cash flow it can use to bolster its position as a leading innovator.

Our process is focused on identifying franchises exposed to accelerating profit cycles with reasonable valuations. It is our belief that owning companies with these characteristics should lead to outperformance over full market cycles. We will continue to be disciplined and methodical in our approach.

Portfolio Details

Net Asset Value (NAV)	\$27.99
ARTSX Inception	28 March 1995
Expense Ratios	
Annual Report 30 Sep 2016	1.25%
Prospectus 30 Sep 2015	1.23%

Top 10 Holdings (% of total portfolio)

Acuity Brands Inc (Industrials)	5.5
Cognex Corp (Information Technology)	3.5
DexCom Inc (Health Care)	3.4
Teledyne Technologies Inc (Industrials)	3.4
John Bean Technologies Corp (Industrials)	3.4
The Ultimate Software Group Inc (Information Technology)	3.0
Proofpoint Inc (Information Technology)	3.0
Veeva Systems Inc (Health Care)	2.8
Guidewire Software Inc (Information Technology)	2.7
Q2 Holdings Inc (Information Technology)	2.4
TOTAL	33.2%

Source: Artisan Partners/FactSet (GICS).

Sector Diversification (% of total portfolio equities)

	Fund	R2G ¹
Consumer Discretionary	12.8	15.4
Consumer Staples	1.5	3.1
Energy	1.5	1.4
Financials	4.1	5.6
Health Care	19.2	20.9
Industrials	25.8	16.8
Information Technology	35.2	24.4
Materials	0.0	5.2
Real Estate	0.0	5.5
Telecommunication Services	0.0	0.8
Utilities	0.0	0.8
TOTAL	100.0%	100.0%

Source: Artisan Partners/FactSet (GICS)/Russell. Cash represented 4.0% of the total portfolio. ¹Russell 2000® Growth Index.

Investment Results (%)

	MTD ¹	QTD ¹	YTD ¹	1 Yr	3 Yr	5 Yr	10 Yr	Inception
Investor Class: ARTSX	-2.88	-5.43	5.54	5.54	1.66	12.08	6.65	8.29
Russell 2000® Growth Index	1.36	3.57	11.32	11.32	5.05	13.74	7.76	7.35
Russell 2000® Index	2.80	8.83	21.31	21.31	6.74	14.46	7.07	9.35

Source: Artisan Partners/Russell. 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.

Market Cap Distribution (% of total portfolio equities)

\$ in billions	Fund	R2G ¹
3.1+	61.7	20.7
2.4–3.1	14.8	19.7
1.7–2.4	9.7	19.8
1.1–1.7	10.1	18.4
0.0–1.1	3.7	21.5
TOTAL	100.0%	100.0%

Source: Artisan Partners/FactSet/Russell. ¹Russell 2000® Growth Index.

Team Leadership (Pictured left to right)



Portfolio Managers

Years of Investment Experience

Craig A. Cepukenas, CFA (Lead)	28
James D. Hamel, CFA	20
Matthew H. Kamm, CFA	17
Jason L. White, CFA	17

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.

Russell 2000® Growth Index measures the performance of US small-cap companies with higher price/book ratios and forecasted growth values. Russell 2000® Index measures the performance of roughly 2,000 US small-cap companies. 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: Nevo Corp 1.5%; SVB Financial Group 1.6%. 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.

All information in this report includes all classes of shares, except performance and expense ratio information and as otherwise indicated, and is as of the date shown in the upper right hand corner unless otherwise indicated. Totals may not sum due to rounding.

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Sector exposure percentages reflect sector designations as currently classified by GICS.

Our capital allocation process is designed to build position size according to our conviction. Portfolio holdings develop through three stages: GardenSM, CropSM and HarvestSM. GardenSM investments are situations where we believe we are right, but there is not clear evidence that the profit cycle has taken hold, so positions are small. CropSM investments are holdings where we have gained conviction in the company's profit cycle, so positions are larger. HarvestSM investments are holdings that have exceeded our estimate of intrinsic value or holdings where there is a deceleration in the company's profit cycle. HarvestSM investments are generally being reduced or sold from the portfolios.

Free Cash Flow is a measure of financial performance calculated as operating cash flow minus capital expenditures.

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