



# Artisan Small Cap Fund

MONTHLY  
Commentary

Investor Class: ARTSX | Advisor Class: APDSX As of 30 April 2017

## Commentary

Markets kicked Q2 off with a positive April, with foreign stocks and emerging markets ahead of domestic. Global markets rallied following the French primary election, which signaled a lower potential for an anti-EU candidate to win the upcoming run-off. Continuing their year-to-date tendency, growth stocks led value in April, and larger stocks outperformed smaller. Oil prices continued their year-to-date decline as supply shows few signs of abating in the near term.

Our portfolio outperformed the Russell 2000® Growth and the Russell 2000® Indices in April and remains nicely ahead for the year. Among our top QTD contributors were CoStar Group, Ollie's Bargain Outlet and Q2 Holdings. CoStar, a leading provider of information services to the global real estate industry, is poised to capitalize on its investment in and integration of LoopNet—a listing website for commercial real estate agents—which we expect to drive accelerating revenues.

Ollie's Bargain Outlet has delivered solid results in the face of a challenging retail environment as e-commerce challenges traditional brick-and-mortar retailers. We believe the company's differentiated business model gives it a unique advantage over its competitors.

Q2 Holding's software, which helps smaller and regional banks improve their competitive positioning relative to larger national banks, is helping it take share from back-end core processors, which tend to be slower-moving industry incumbents. We expect Q2 to generate attractive margin expansion and free cash flow as it expands its customer base and banks add users, which should drive higher revenues.

Among our relatively few negative contributors in April were DexCom, Acuity Brands and SVB Financial. DexCom's shares modestly retrenched in April following a solid start to the year—likely more of a sentiment reset than a reflection of any negative fundamental development.

Acuity's business momentum has decelerated recently, partly tied to a slowdown around the US election in smaller customer orders. However, we believe the pressures Acuity faces are likely short-term and the company's strong position in the secular trend toward LED lighting will lead to reaccelerating growth in the future.

Shares of SVB Financial (SIVB) were pressured as the lending environment has remained more competitive than management expected, which is crimping net interest margins and offsetting some of the benefit from rising rates. Non-performing loans have also been higher than investors anticipated—though SIVB remains well positioned to handle such an increase, and we maintain our conviction in this unique financials franchise.

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

	ARTSX	APDSX
Net Asset Value (NAV)	\$31.38	\$31.39
Inception	28 Mar 1995	1 Feb 2017
Expense Ratios		
Annual Report 30 Sep 2016	1.25%	—
Prospectus 30 Sep 2016 <sup>1</sup>	1.25%	1.10% <sup>2</sup>

<sup>1</sup>See prospectus for more information. <sup>2</sup>Includes estimated expenses for the current fiscal year.

## Top 10 Holdings (% of total portfolio)

Cognex Corp (Information Technology)	4.2
DexCom Inc (Health Care)	4.0
Acuity Brands Inc (Industrials)	3.7
Veeva Systems Inc (Health Care)	3.3
Teledyne Technologies Inc (Industrials)	3.3
John Bean Technologies Corp (Industrials)	3.1
BWX Technologies Inc (Industrials)	3.1
Guidewire Software Inc (Information Technology)	3.0
Proofpoint Inc (Information Technology)	2.9
The Ultimate Software Group Inc (Information Technology)	2.8
<b>TOTAL</b>	<b>33.5%</b>

Source: Artisan Partners/FactSet (GICS).

## Sector Diversification (% of total portfolio equities)

	Fund	R2G <sup>1</sup>
Consumer Discretionary	12.1	15.0
Consumer Staples	1.5	3.0
Energy	0.8	1.1
Financials	5.4	5.5
Health Care	19.1	21.6
Industrials	24.2	16.0
Information Technology	36.9	25.0
Materials	0.0	5.5
Real Estate	0.0	5.5
Telecommunication Services	0.0	1.0
Utilities	0.0	0.8
<b>TOTAL</b>	<b>100.0%</b>	<b>100.0%</b>

Source: Artisan Partners/FactSet (GICS)/Russell. Cash represented 5.6% of the total portfolio. <sup>1</sup>Russell 2000® Growth Index.

## Investment Results (%)

As of 30 April 2017	Average Annual Total Returns							
	MTD <sup>1</sup>	QTD <sup>1</sup>	YTD <sup>1</sup>	1 Yr	3 Yr	5 Yr	10 Yr	Inception
Investor Class: ARTSX	2.35	2.35	12.11	24.74	10.25	11.57	7.49	8.72
Advisor Class: APDSX	2.35	2.35	12.15	24.78	10.26	11.58	7.49	8.73
Russell 2000® Growth Index	1.84	1.84	7.29	24.06	9.27	12.89	7.97	7.58
Russell 2000® Index	1.10	1.10	3.59	25.63	9.03	12.95	7.05	9.38

As of 31 March 2017

Investor Class: ARTSX	1.49	9.54	9.54	23.38	4.85	10.61	7.58	8.64
Advisor Class: APDSX	1.49	9.57	9.57	23.42	4.86	10.62	7.58	8.64
Russell 2000® Growth Index	1.18	5.35	5.35	23.03	6.72	12.10	8.06	7.52
Russell 2000® Index	0.13	2.47	2.47	26.22	7.22	12.35	7.12	9.36

Source: Artisan Partners/Russell. <sup>1</sup>Returns for periods less than one year are not annualized. Advisor Class performance is that of the Investor Class from 28 March 1995 through the inception of the Advisor Class on 1 February 2017, and actual Advisor Class performance thereafter. Performance has not been adjusted to reflect the expenses of the Advisor Class for the period prior to the Class's inception, and Advisor Class performance results would differ if such expenses were reflected.

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 <sup>1</sup>
3.1+	71.6	28.1
2.4–3.1	12.1	18.3
1.7–2.4	6.7	19.0
1.1–1.7	5.9	16.2
0.0–1.1	3.7	18.4
<b>TOTAL</b>	<b>100.0%</b>	<b>100.0%</b>

Source: Artisan Partners/FactSet/Russell. <sup>1</sup>Russell 2000<sup>®</sup> 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<sup>®</sup> Growth Index measures the performance of US small-cap companies with higher price/book ratios and forecasted growth values. Russell 2000<sup>®</sup> 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 30 Apr 2017: CoStar Group Inc 2.5%; Ollie's Bargain Outlet Holdings Inc 2.0%; Q2 Holdings Inc 2.8%; SVB Financial Group 1.8%. 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: Garden<sup>SM</sup>, Crop<sup>SM</sup> and Harvest<sup>SM</sup>. Garden<sup>SM</sup> 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. Crop<sup>SM</sup> investments are holdings where we have gained conviction in the company's profit cycle, so positions are larger. Harvest<sup>SM</sup> investments are holdings that have exceeded our estimate of intrinsic value or holdings where there is a deceleration in the company's profit cycle. Harvest<sup>SM</sup> 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. **Nonperforming Loan (NPL)** is a loan on which the borrower is not making interest payments or repaying any principal.

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