



Artisan Small Cap Fund

MONTHLY
Commentary

Investor Class: ARTSX | Advisor Class: APDSX As of 31 December 2018

Commentary

Heightened volatility persisted in Q4, dragging most major global indices down for the quarter and year. Emerging markets held up better than developed-world counterparts in Q4 but trailed for the year. Conversely, US markets trailed foreign developed markets in Q4 but led for the year. As expected, the Fed raised the benchmark rate 25bps in December but struck a more dovish tone for 2019. Among global stocks, energy was the worst performing sector in Q4 as crude prices fell precipitously, while utilities was the only positive sector.

Our portfolio outperformed the Russell 2000® Growth and Russell 2000® Indices in Q4 and for the year. Among our top Q4 contributors were Tableau and Cree. Tableau is benefiting from strong demand for data analytics tools—a secular trend we believe remains firmly in motion. Under the leadership of its new CEO, the company is effectively transitioning toward a cloud and subscription-based business model. Meanwhile, the pace of product enhancements is picking up, making Tableau's analytical tools easier to use for employees across organizations, which should contribute to higher adoption rates.

Cree's silicon-carbide (SiC) business—which we think is well-positioned for a future with electric vehicles—has expanded its manufacturing capacity and customer contracts. We are mindful Cree's legacy LED and lighting fixtures businesses could be a source of volatility in coming quarters as they face trade-related headwinds. However, we anticipate growth in its SiC business should ultimately outpace a slowdown elsewhere.

Among our bottom Q4 contributors were BWX Technologies and Teledyne Technologies. BWX Technologies reported several meaningful setbacks in Q4, including production challenges with missile tubes for the US Navy which are proving costlier than anticipated. The company has also pushed back its planned entry into the medical isotope business. We are remaining patient while we assess the likelihood the profit cycle reaccelerates from here.

Teledyne Technologies, in contrast, was largely caught up amid investor concerns about the outlook for industrials against a backdrop of increasing global trade concerns, combined with signs of economic slowing in China and Europe. However, Teledyne has executed well, and we maintain our conviction in its profit-cycle potential.

We will share further thoughts on these and other holdings in our forthcoming commentary.

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. While we are not macro prognosticators—nor does our process require it—we do believe periods of heightened volatility such as we're currently experiencing provide attractive opportunities to upgrade our portfolio into high-conviction stocks at what we believe to be more attractive valuations. We will continue to adhere to this approach, regardless of the macro backdrop and how it evolves in the period ahead.

Investment Results (%)

As of 31 December 2018	MTD	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception
Investor Class: ARTSX	-11.87	-19.85	2.25	2.25	11.02	6.38	15.60	8.75
Advisor Class: APDSX	-11.87	-19.80	2.38	2.38	11.11	6.43	15.63	8.76
Russell 2000® Growth Index	-11.68	-21.65	-9.31	-9.31	7.24	5.13	13.52	7.17
Russell 2000® Index	-11.88	-20.20	-11.01	-11.01	7.36	4.41	11.97	8.62

Source: Artisan Partners/Russell. Returns for periods less than one year are not annualized. Class inception: Investor (28 March 1995); Advisor (1 February 2017). For the period prior to inception, Advisor Class performance is the Investor Class's return for that period ("Linked Performance"). Linked Performance has not been restated to reflect expenses of the Advisor Class and the share class's returns during that period would be different 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.

Portfolio Details

	ARTSX	APDSX
Net Asset Value (NAV)	\$26.06	\$26.14
Inception	28 Mar 1995	1 Feb 2017
Expense Ratios		
Annual Report 30 Sep 2018	1.20%	1.06%
Prospectus 30 Sep 2017 ¹	1.21%	1.12%

¹See prospectus for further details.

Top 10 Holdings (% of total portfolio)

Veeva Systems Inc (Health Care)	4.7
Teledyne Technologies Inc (Industrials)	4.3
Q2 Holdings Inc (Information Technology)	3.6
DexCom Inc (Health Care)	3.4
Guidewire Software Inc (Information Technology)	3.3
Tableau Software Inc (Information Technology)	3.3
Webster Financial Corp (Financials)	2.8
ACI Worldwide Inc (Information Technology)	2.6
Chegg Inc (Consumer Discretionary)	2.5
HubSpot Inc (Information Technology)	2.4
TOTAL	32.9%

Source: Artisan Partners/FactSet (GICS).

Sector Diversification (% of total portfolio equities)

	Fund	R2G ¹
Communication Services	3.7	3.5
Consumer Discretionary	11.4	14.8
Consumer Staples	0.0	3.1
Energy	0.7	1.7
Financials	4.5	7.5
Health Care	22.9	26.3
Industrials	18.0	17.7
Information Technology	37.4	18.5
Materials	1.4	3.4
Real Estate	0.0	3.0
Utilities	0.0	0.5
TOTAL	100.0%	100.0%

Source: Artisan Partners/FactSet (GICS)/Russell. Cash and cash equivalents represented 0.9% of the total portfolio. ¹Russell 2000® Growth Index.

Average Annual Total Returns

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Market Cap Distribution (% of total portfolio equities)

\$ in billions	Fund	R2G ¹
3.4+	57.8	18.4
2.5–3.4	11.2	18.7
1.8–2.5	19.9	19.0
1.1–1.8	10.1	22.1
0.0–1.1	1.0	21.8
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)	30
James D. Hamel, CFA	22
Matthew H. Kamm, CFA	19
Jason L. White, CFA	19

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 2018: BWX Technologies Inc 2.1%; Cree Inc 1.9%. 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.

Unless otherwise indicated, all information in this report includes all classes of shares, except performance and expense ratio information, and is as of the date shown in the upper right hand corner. 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.

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