



# Artisan Small Cap Fund

MONTHLY  
Commentary

Investor Class: ARTSX | Advisor Class: APDSX As of 31 July 2019

## Commentary

Global developed markets inched quietly higher in July—with the US leading most countries—while emerging markets were slightly negative. Many central banks have shifted toward accommodative policies on substantially similar concerns from recent months—notably, the Fed cut the benchmark rate by 25bps for the first time in 11 years. At the sector level, information technology, communication services and consumer staples led, while health care and energy lagged.

Our portfolio is outperforming the Russell 2000® Growth and Russell 2000® Indices QTD and remains ahead of both benchmarks YTD. Among our top QTD contributors are Chegg and Teledyne Technologies. Chegg is driving solid growth in subscribers for its best-in-class online digital education platform. Positively, it also recently indicated it is seeing positive results from its international efforts. Further, testing of the company's Study Pack bundle in the first half of this year appears promising which should lead to higher fees over the medium term. We believe the company is positioning itself as a best-in-class education platform that will be a must-have for college students in the coming years.

Teledyne, which supplies ultra-sensitive components and sensors to various end markets, is reaping the rewards of its efforts to reposition its business in higher growth and higher margin areas such as instrumentation, digital imaging and defense electronics. The share price is following earnings growth, as we would expect. We've been pleased to see our thesis continue to play out in line with our expectations.

Among our bottom QTD contributors are Blackline and Novanta. Blackline develops cloud-based accounting software that helps businesses improve and automate complex, manual and repetitive accounting processes. Though shares have been pressured QTD, the company's execution is becoming more consistent, upselling existing customers and landing new accounts. We maintain our conviction in the growth runway ahead.

Novanta supplies sophisticated components for medical and industrial equipment. Though shares have consolidated solid YTD gains, we remain confident in the company's high-quality management team, which is driving attractive margin growth via its higher value product offerings and acquisitions which add technology and customer content.

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 adhere to this approach, regardless of the macro backdrop and how it evolves in the period ahead.

## Investment Results (%)

As of 31 July 2019	MTD	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception
Investor Class: ARTSX	3.33	3.33	35.65	18.09	19.96	15.79	16.71	9.90
Advisor Class: APDSX	3.35	3.35	35.77	18.27	20.09	15.87	16.75	9.92
Russell 2000® Growth Index	0.98	0.98	21.54	-1.22	12.66	10.21	13.67	7.86
Russell 2000® Index	0.58	0.58	17.66	-4.42	10.36	8.53	12.47	9.13

  

As of 30 June 2019	MTD	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception
Investor Class: ARTSX	8.26	6.71	31.27	16.00	20.78	13.25	17.24	9.79
Advisor Class: APDSX	8.26	6.71	31.37	16.15	20.91	13.32	17.27	9.80
Russell 2000® Growth Index	7.70	2.75	20.36	-0.49	14.69	8.63	14.41	7.84
Russell 2000® Index	7.07	2.10	16.98	-3.31	12.30	7.06	13.45	9.14

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)	\$35.35	\$35.49
Inception	28 Mar 1995	1 Feb 2017
Expense Ratios		
Semi-Annual Report 31 Mar 2019 <sup>1</sup>	1.21%	1.05%
Prospectus 30 Sep 2018 <sup>2</sup>	1.21%	1.06%

<sup>1</sup>Unaudited, annualized for the six-month period. <sup>2</sup>See prospectus for further details.

## Top 10 Holdings (% of total portfolio)

Teledyne Technologies Inc (Industrials)	4.4
Q2 Holdings Inc (Information Technology)	4.2
DexCom Inc (Health Care)	3.3
Guidewire Software Inc (Information Technology)	3.1
Chegg Inc (Consumer Discretionary)	2.9
Zynga Inc (Communication Services)	2.8
HubSpot Inc (Information Technology)	2.7
John Bean Technologies Corp (Industrials)	2.5
Gardner Denver Holdings Inc (Industrials)	2.5
LivePerson Inc (Information Technology)	2.3
<b>TOTAL</b>	<b>30.9%</b>

Source: Artisan Partners/FactSet (GICS).

## Sector Diversification (% of total portfolio equities)

	Fund	R2G <sup>1</sup>
Communication Services	6.0	2.6
Consumer Discretionary	11.0	12.5
Consumer Staples	0.0	3.2
Energy	0.0	0.7
Financials	3.8	5.9
Health Care	23.7	28.1
Industrials	16.3	19.1
Information Technology	37.8	18.4
Materials	1.4	3.2
Real Estate	0.0	4.5
Utilities	0.0	1.6
<b>TOTAL</b>	<b>100.0%</b>	<b>100.0%</b>

Source: Artisan Partners/FactSet (GICS)/Russell. Cash and cash equivalents represented 6.9% of the total portfolio. <sup>1</sup>Russell 2000® Growth Index.

Average Annual Total Returns

## Market Cap Distribution (% of total portfolio equities)

\$ in billions	Fund	R2G <sup>1</sup>
3.4+	73.4	27.5
2.5–3.4	8.5	20.2
1.8–2.5	9.6	17.5
1.1–1.8	5.0	18.2
0.0–1.1	3.5	16.6
<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)	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<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 31 Jul 2019: Blackline Inc 1.8%; Novanta Inc 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.

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: 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.

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