Artisan International Small Cap Fund

QUARTERLY
Commentary

Investor Class: ARTJX

As of 31 December 2016

Investment Process

We seek to invest in companies, within our preferred themes, with sustainable growth characteristics at attractive valuations that do not fully reflect their long-term potential.

Themes

We identify long-term secular growth trends with the objective of investing in companies that have meaningful exposure to these trends. Our fundamental analysis focuses on those industry leaders with attractive growth and valuation characteristics that will be long-term beneficiaries of any structural change and/or trend.

Sustainable Growth

We apply a fundamental approach to identifying the long-term, sustainable growth characteristics of potential investments. We seek high-quality companies that typically have a sustainable competitive advantage, a superior business model and a high-quality management team.

Valuation

We use multiple valuation metrics to establish a target price range. We assess the relationship between our estimate of a company's sustainable growth prospects and its current valuation.

Team Overview

Our team approach combines the benefits of strong leadership with the creative ideas of a deep and highly experienced team of research analysts. We believe this approach allows us to leverage a broad set of perspectives into dynamic portfolios.

Portfolio Management

Mark L. Yockey, CFA
Portfolio Manager

Charles-Henri Hamker
Portfolio Manager

Investment Results (%)

As of 31 December 2016	QTD[1]	YTD[1]	Average Annual Total Returns 1 Yr	3 Yr	5 Yr	10 Yr	Inception[2]
Investor Class: ARTJX	**-9.31**	**-12.88**	**-12.88**	**-5.21**	**8.17**	**3.31**	**10.88**
MSCI EAFE Small Cap Index	-2.86	2.18	2.18	2.10	10.56	2.95	9.67
MSCI EAFE Index	-0.71	1.00	1.00	-1.60	6.53	0.75	5.45

Source: Artisan Partners/MSCI. [1]Returns for periods less than one year are not annualized. [2]Fund inception: 21 December 2001.

Expense Ratios	
Annual Report 30 Sep 2016	1.51%
Prospectus 30 Sep 2015	1.52%

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.

Investing Environment

Non-US small-cap stocks produced solid gains in Q4 in local terms, though a strengthening US dollar materially pared USD-based returns. Equity markets were highly influenced by three events in Q4: 1) the US presidential election, 2) the Fed's December meeting and 3) the late-November OPEC meeting. Not unlike Brexit, US presidential election results appeared to catch investors by surprise, and markets swiftly repriced increased US growth and inflation expectations on the prospects for a new administration taking action on tax reform and deregulation. That combined with a December Fed rate hike—only its second in a decade—fueled a strong US dollar rally. The US dollar appreciated strongly against most currencies, including the euro, yen and British pound.

An improving global growth outlook helped cyclicals outperform, led by the financials, energy and materials sectors. Commodity stocks continued their momentum following the rebound in commodity prices earlier in 2016. Energy stocks further benefited from OPEC's late-November agreement to curtail production, buttressing the oil market. Financials—a sector that had lagged earlier in the year and for the past several years in an environment of low interest rates and loan growth, balance sheet concerns and increased regulation—was additionally aided by a backup in long-term interest rates globally. A steepening in the yield curve (i.e., the widening spread between short-term and long-term bond yields) is a boon to the profitability of banks, insurance companies and other financial institutions that borrow short and lend or invest long. In contrast, defensive and higher-yielding sectors trailed (e.g., consumer staples, health care and utilities) as they typically do in a cyclical growth environment.

Value significantly outperformed growth during the quarter, while large stocks outpaced small-cap stocks. From a regional perspective, Japan performed strongly in local terms aided by a weak currency. Conversely, emerging markets came under pressure. A strengthening US dollar is negative for countries with a US dollar peg and large amounts of dollar-denominated debt and can result in lost purchasing power and tighter monetary policy as authorities combat inflationary pressures.

For the full year, the best performing sectors by a substantial margin were energy and materials as commodity prices bounced back following the commodity bust of 2015. On the downside, the health care sector trailed, due in part to ongoing scrutiny over drug pricing, but also the shifting preference away from earnings stability and yield. The telecom and utilities sectors also lagged the broader market as investors sought greater cyclicality. While most major regions posted gains, emerging markets outpaced developed for the full year, led by commodity exporters Brazil and Russia. The UK was up single digits in local terms in 2016, but gains were completely offset by a weak British pound. Conversely, Japan's USD returns outpaced its local returns due to modest yen strength for the full year.

Performance Discussion

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. In addition, we were slow to recognize the pickup in bond yields which began in the summer and accelerated in Q4. Brexit and the US election were pivotal events in 2016 and in both instances, we got them wrong.

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, bond yields were negative in much of the world 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 the pending Brexit vote, the US election and the health of 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 outsized 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). Our process has generally led us away from cyclical commodity companies that are largely dependent on forces outside of company control. By contrast, we seek high value-added companies that can innovate, command higher pricing power or provide a unique solution. However, this was a hindrance in a commodities-led rally.

In addition, we had a larger-than-usual number of stock-specific upsets and fewer big gainers among our largest holdings during the year. 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. We're still attracted to Ginko's market-share dominance in the fast-growing Chinese market—indeed, it was a top performer in the portfolio in Q4. However, we have pared our

position as we monitor how the company contends with increasing competitive intensity online.

We were also disappointed by cellular towers companies Cellnex and Infrastrutture Wireless Italiane (Inwit—majority owned by Telecom Italia), and broadcast towers company EI Towers during 2016. We had been attracted to these companies' high earnings visibility, owing to their long-term, inflation-linked contracts—which was of interest to us when we anticipated a slower-growth environment. Further, when we initiated positions in each in 2015, we anticipated an additional boost from an industry consolidation that did not play out as we expected and now appears to be on hold. As such, we exited EI Towers and Inwit. We pared our Cellnex exposure but remain investors as the company recently acquired a towers portfolio in the Netherlands and the UK that will meaningfully expand its footprint while also bolstering its free cash flow position.

Several of our bigger YTD detractors suffered from Brexit-related concerns. These included global staffing company Hays, soft drink maker Britvic, and engineering outsourcing company Babcock. Given the ongoing uncertainty surrounding the UK's relationship with the EU's single market, we have since disposed all three of these UK-based companies.

Similarly, following the US election, consumer nondurable holdings Royal Unibrew, Swedish confectionary company Cloetta and Japanese drugstore chain operator Sugi Holdings were weak as investors sought more cyclical investments, putting them among our bottom contributors in Q4. We continue to believe these companies are positioned to benefit from their unique brand strength and pricing power, however, we pared all three in recognition that we are in more of a cyclical growth environment, giving us opportunity to redeploy capital into holdings better positioned to benefit from a healthier macroeconomic backdrop.

Berendsen, a European contract linen and laundry business, was another bottom Q4 contributor. It is experiencing increased demand for its linen business—a decided positive—but hadn't invested in new capacity fast enough. As such, it incurred additional overtime and some near-term delays, impacting margins. Management has already moved to address these issues, and the overall business is performing well.

Though absolute and relative performance was disappointing, we still had a number of individual success stories for the full year, including Huhtamaki. This global consumer packaging company has benefited from strong earnings growth in emerging markets, where Huhtamaki has tapped into the shift to modern retail—and the resulting demand for flexible packaging that is lighter, cheaper and more efficient—as well as rapid growth of fast food and coffee chains. We sold in Q4 as shares approached our target valuation.

Comet, a producer of components for niche high-tech markets, was a top contributor both YTD and QTD. The company is benefiting from expectations of growing demand for its products used in security inspection and materials testing. It is seeing strong top-line growth against a backdrop of margin improvements, and has delivered what we believe to be credible guidance for solid long-term sales growth.

Another top contributor, both YTD and QTD, was Elis, the leading European linen and uniform rental company. Shares of Elis had been pressured in Q1, as the company contended with business slowing in Elis's major market of France in light of declining hotel occupancy rates following terrorist attacks in Paris and Nice. However, Elis has been executing well on its strategy of capturing share in other European markets via accretive acquisitions, providing what we see as a significant margin expansion opportunity amid the secular growth in outsourcing among hotel, restaurant, nursing home and other industry customers.

As for Q4, in addition to Comet, Elis and the aforementioned Ginko, another top contributor was HomeServe, a provider of emergency home repair services in Europe and the US. We're attracted to the company's industry leadership in a niche market, and see it poised for expansion into new verticals and territories.

Portfolio Positioning

In an effort to reposition our portfolio for what we believe is the next wave of growth, we had an unusually high level of turnover during the quarter. The high turnover is consistent with our view that, while we had been slow to respond to a changing market backdrop, we believe there are fundamental underpinnings to the performance shifts we're seeing in markets.

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 reasons for a likely reacceleration in global growth. This is evident in recent activity. During Q4, we began to add to our financials exposure, as we believe the potential for alleviation of regulatory headwinds against a backdrop of widening spreads make these holdings more attractive now. Valuations are also attractive, with some stocks selling at huge discounts to book value. Specific Q4 purchases included Sydbank, a Denmark-based commercial bank, and Germany-based Aareal Bank, a strongly capitalized provider of structured real estate finance and property management.

We also added to Q3 purchase Euronext, a pan-European stock exchange. The company operates a leading cash equity trading business in France, Netherlands, Belgium and Portugal; though its diverse revenue stream also includes a wide range of non-transactional services such as market data and indices. In time, we believe the company's efforts to cut costs and further diversify its product offerings should trigger a share rerating—and it, too, should be a beneficiary of subsiding regulatory headwinds.

Beyond the financials sector, other notable Q4 purchases included Vallourec and Buzzi Unicem—two companies we believe should benefit from cyclical tailwinds. France-based Vallourec is a leading provider of tube products and steel fabrication used in the oil and gas industry. Buzzi Unicem is an Italian-based producer of cement and concrete, generating over 40% of its revenues in the US. Both are quality, well run firms selling at attractive valuations, but additionally, are well positioned in our view to benefit from an increasing infrastructure spend.

At the same time, we reduced or sold a number of our consumer staples names, including the aforementioned Hays and Britvic. Our telecom exposure has also been materially reduced with our exit from EI Towers and Inwit and our reduction of Cellnex. As always, sector exposures are a residual of bottom-up stock decisions, and they can vary widely as changing economic, industry and company-specific dynamics impact where we find companies positioned for sustainable growth selling at attractive valuations.

Outlook

Key events in 2016, including Brexit and the US election outcome, as well as diverging global monetary policy, could have a material impact on the macro environment in 2017. President-elect Trump's pro-growth policies (e.g., tax reform, reduced regulation), if advanced, could carry important benefits for key sectors, such as financials, industrials and commodities, and also ripple positively through the global economy. A strong US dollar, rising interest rates and the threat of protectionism hindering free trade pose a few of the risks. In addition, there are several European elections coming up that could create uncertainty, particularly in France and Germany. However valuations there look quite attractive to us relative to North America.

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 our disciplined 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.

Business Update

Mike Carruthers, an analyst on the Artisan Partners Global Equity Team covering the telecommunications and media industries, retired effective December 9, 2016. Mike, a 24-year industry veteran, had been with Artisan Partners for over 17 years. We thank him for his contribution to the team over the years and wish him well in this next chapter. Coverage of stocks in the telecom and media industries has been assumed by other team members.

For more information: Visit www.artisanpartners.com | Call 800.344.1770

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.

This summary represents the views of the portfolio managers as of 31 Dec 2016. Those views may change, and the Fund disclaims any obligation to advise investors of such changes. For the purpose of determining the Fund's holdings, securities of the same issuer are aggregated to determine the weight in the Fund. The holdings mentioned above comprised the following percentages of the Fund's total net assets as of 31 Dec 2016: Wirecard AG 4.8%, Ginko International Co Ltd 4.8%, Cellnex Telecom SA 2.6%, Royal Unibrew A/S 0.9%, Cloetta AB 2.5%, Sugi Holdings Co Ltd 2.4%, Berendsen PLC 1.4%, Comet Holding AG 4.8%, Elis SA 3.3%, HomeServe PLC 3.2%, Sydbank A/S 2.0%, Aareal Bank AG 3.4%, Euronext NV 2.8%, Vallourec SA 0.5%, Buzzi Unicem SpA 1.5%. Securities named in the Commentary, but not listed here are not held in the Fund as of the date of this report. Portfolio holdings are subject to change without notice and are not intended as recommendations of individual securities. All information in this report, unless otherwise indicated, includes all classes of shares (except performance and expense ratio information) and is as of the date shown in the upper right hand corner. This material does not constitute investment advice.

Attribution is used to evaluate the investment management decisions which affected the portfolio's performance when compared to a benchmark index. Attribution is not exact, but should be considered an approximation of the relative contribution of each of the factors considered.

The Global Industry Classification Standard (GICS®) is the exclusive intellectual property of MSCI Inc. (MSCI) and Standard & Poor's Financial Services, LLC (S&P). Neither MSCI, S&P, their affiliates, nor any of their third party providers ("GICS Parties") makes any representations or warranties, express or implied, with respect to GICS or the results to be obtained by the use thereof, and expressly disclaim all warranties, including warranties of accuracy, completeness, merchantability and fitness for a particular purpose. The GICS Parties shall not have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of such damages.

MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used to create indices or financial products. This report is not approved or produced by MSCI.

Free Cash Flow is a measure of financial performance calculated as operating cash flow minus capital expenditures. **Book Value** is the net asset value of a company, calculated by total assets minus intangible assets and liabilities.

Artisan Partners Funds offered through Artisan Partners Distributors LLC (APDLLC), member FINRA. APDLLC is a wholly owned broker/dealer subsidiary of Artisan Partners Holdings LP. Artisan Partners Limited Partnership, an investment advisory firm and adviser to Artisan Partners Funds, is wholly owned by Artisan Partners Holdings LP.

A R T I S A N  P A R T N E R S

1/24/2017 A16732L_vR