Artisan International Value Fund

QUARTERLY
Commentary

Investor Class: ARTKX | Advisor Class: APDKX

As of 31 December 2016

Investment Process

We seek to invest in high-quality, undervalued companies with strong balance sheets and shareholder-oriented management teams.

Undervaluation

Determining the intrinsic value of a business is the heart of our research process. Intrinsic value represents the amount that a buyer would pay to own a company's future cash flows. We seek to invest at a significant discount to our estimate of the intrinsic value of a business.

Business Quality

We seek to invest in companies with histories of generating strong free cash flow, improving returns on capital and strong competitive positions in their industries.

Financial Strength

We believe that investing in companies with strong balance sheets helps to reduce the potential for capital risk and provides company management the ability to build value when attractive opportunities are available.

Shareholder-Oriented Management

Our research process attempts to identify management teams with a history of building value for shareholders.

Team Overview

Our team has worked together for many years and has implemented a consistent and disciplined investment process. Our team is organized by geographic regions, but within those regions we are generalists who look across all industries. We believe this model enables our analysts to become broad thinkers and gain critical insight across all economic sectors.

Portfolio Management

N. David Samra
Portfolio Manager (Lead)

Daniel J. O'Keefe
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: ARTKX	**-0.29**	**5.50**	**5.50**	**1.00**	**10.55**	**5.39**	**12.67**
Advisor Class: APDKX	**-0.22**	**5.67**	**5.67**	**1.11**	**10.62**	**5.42**	**12.70**
MSCI EAFE Index	-0.71	1.00	1.00	-1.60	6.53	0.75	7.35
MSCI EAFE Value Index	4.17	5.02	5.02	-2.14	6.28	-0.22	7.45

Source: Artisan Partners/MSCI. [1]Returns for periods less than one year are not annualized. [2]Investor Class inception: 23 September 2002. Advisor Class performance is that of the Investor Class from 23 September 2002 through the inception of the Advisor Class on 1 April 2015, 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.

Expense Ratios	ARTKX	APDKX
Annual Report 30 Sep 2016[1]	1.18	1.02
Prospectus 30 Sep 2015	1.21	1.07[2]

[1]Excluding Acquired Fund Fees & Expenses as described in the prospectus. [2]Includes estimated expenses for the current fiscal year.

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. Performance may reflect agreements to limit a Fund's expenses, which would reduce performance if not in effect.

Market Overview

The fourth quarter of 2016 was a memorable finish to an unforgettable year. Americans waking up on November 9 were probably as surprised to see that Donald Trump was the president-elect as voters were in 1948, who went to sleep election night assuming Dewey had defeated Truman. Coming less than five months after a similarly surprising vote in the UK to leave the European Union, we can't help but think of what the great playwright Arthur Miller wrote many years ago: "An era can be said to end when its basic illusions are exhausted." If faith in the benefits of globalization, immigration and free trade were the trinity of conventional political and economic dogma coming into 2016, they feel like exhausted illusions heading out of it. Brexit and Donald Trump are certainly signs that the world is heading in a different direction. The question is: Where?

Judging solely by the performance of most asset prices recently, the answer appears to be: a better place. Stock markets were up from mid-single digits to strongly double digit for the year. Notably, areas that are particularly economically sensitive and have underperformed for some time took off after the US election. Copper was up 14% in the fourth quarter, iron ore 41%, and oil 16%. The S&P 500® financials were up a heady 21%. These data points, particularly the performance of financials stocks, are telling us something very interesting. For the past eight years, banks have seen their earnings, capital and stock market rating battered by falling interest rates, ever-increasing regulation and a stampede of fines and penalties. As many observers including ourselves have noted, if financial institutions and the capital they provide to businesses are the oxygen that fuels growth, suffocating them is unlikely to help the economy. Said another way: It is difficult to imagine a strong economy without healthy banks. Economic growth, higher interest rates and less regulatory interference would certainly be good for banks; and judging by share prices, investors clearly believe that Donald Trump will be better for the banking industry in particular and the economy in general.

Indeed, within the span of just a few months, the popular narrative has shifted from the expectation of continued low growth, low inflation and low interest rates to one of higher growth and higher inflation. Since Donald Trump's victory, the yield on the 10-year Treasury has jumped from 1.8% to 2.4%. The US Federal Reserve is now more confident in further interest rate increases. Economic optimism is driving oil and other commodity prices higher. Mr. Trump's background as a businessman as well the individuals he is naming to his cabinet all point in a business-friendly, pro-growth direction. The incoming administration is talking about less regulation, lower taxes and more investment in infrastructure. This is a big shift from the Obama administration's strained relationship with business and penchant for higher taxes and more regulation. With the presidency and both houses of Congress now controlled by one party, the potential for significant pro-business policy implementation is real and profound.

This potential puts recent stock market gains into perspective. Stock prices and earnings have been generally moving in opposite directions. In 2016, S&P 500 earnings were down 2.7%, yet that index rose 12.0%. Stock prices and earnings can't diverge for long—earnings are going to have to rise to justify current valuations, which are at the high end of their historic range. An acceleration in economic growth would be the largest contributor to a sustainable increase in corporate earnings. There are many factors that will impact the economy over the next few years, including Mr. Trump's policies. But let's look specifically at an example of something that is high on Mr. Trump's legislative agenda—tax reform.

Companies that operate in or are headquartered in the US pay some of the highest corporate tax rates in the world—somewhere between 35% and 40%. This compares to a global average corporate tax rate of 22.5%. Trump and congressional Republicans want to lower the tax rate here to encourage companies to invest in the US rather than in other, lower-cost jurisdictions. FedEx, which we currently own in our Global Value portfolio, is a good example of the economic upside at stake. We estimate FedEx will pay a tax rate of 34% in the fiscal year ending May 2017. If that tax rate is lowered to 25% (which many pundits expect could be the new US corporate tax rate), FedEx's earnings would automatically jump 13%, which would shave two multiple points off the current 15X PE. That is significant, and we believe the increasing expectation for US corporate earnings growth stemming from lower taxes is a big explanation for recent stock market strength. For example, note that the Russell 2000® Index, which has a heavy weighting of companies both domiciled in and operating in the US, rose almost 14% post-election versus the more globally diversified S&P 500 Index, which was up a more modest 5% post-election.

We question the positive reaction of the non-US markets, which are only partial and indirect beneficiaries of economic, tax and regulatory adjustments in the US. In local currency, the MSCI EAFE Index rallied more than 7% in Q4. The strongest market was Japan, which was up almost 15%. Note that in dollars, EAFE was negative, highlighting the significant Q4 declines in the euro (-6%), the pound (-5%), and the yen (down a massive 13%). While to a certain degree, these countries' exporters will benefit from a pickup in US GDP and from weaker currencies, we find it hard to handicap how that balances out with the president-elect's stated intentions regarding import duties. Investors seem a little guilty of selectively focusing on the potential positives of Mr. Trump's presidency while disregarding the potential negatives. Mr. Trump has advocated a strongly pro-growth, pro-capitalism agenda, but he also campaigned on policies that are strongly anti-growth, including restrictions on free trade and immigration. Mr. Trump has not even taken the oath of office yet, and he is already publicly threatening corporations over respective plans to build manufacturing facilities abroad. This is the type of behavior we might expect from a European socialist president rather than the head of the Republican Party, which has typically been associated with free trade and laissez faire capitalism.

Where exactly we are headed is impossible to predict. In the wake of the Brexit vote, a slowdown in the UK economy was widely predicted. With the uncertainty regarding terms of trade and the movement of goods and services, it seemed entirely logical that businesses and individuals would take a cautious approach to investment and spending decisions. But so far, the UK economy has not slowed down and has in fact slightly accelerated. The collective behavior of over 60 million Brits is quite difficult to predict. Go figure. We are confident the behavior of 300 million-plus Americans will prove no less fascinating in the wake of this election, likely confounding both optimists and doom-mongers alike.

Portfolio Discussion

For the quarter (in local currency), 25 equities rose in value while 19 declined. For the full year, 37 rose and 11 declined. The largest contributors for the quarter were UBS, Royal Bank of Scotland and ING Groep. We mentioned in this letter's introduction financials have reacted favorably to the election of Donald Trump as well as the recent interest rate increase in the US, so it is perhaps not surprising that our best performers this quarter were financials. However, it is somewhat surprising that non-US financials increased in sync with US financials. There has been no move on the part of European central banks to raise interest rates. Further, there was no meaningful, fundamental new information that drove these stocks higher. They merely rose on improved sentiment.

Our three worst performing stocks were Medtronic, ISS, and Baidu.

Medtronic declined about 19% from highs it achieved in mid-2016 (all returns in USD unless stated otherwise). There are two issues. First, the margin improvement from the Covidien acquisition is not coming through as planned. Cost savings are being realized, but foreign currency headwinds are offsetting these benefits. Second, revenue growth disappointed investors in the most recent quarterly report. Since the Covidien acquisition, Medtronic had been posting attractive mid-single digit revenue growth. But in the most recent quarter, growth slowed to low-single digits. This, combined with the margin issue, has resulted in a loss of confidence by some investors.

ISS declined 12% in local currency and 18% in US dollars. The decline is less a function of bad results and more a function of investors just wanting better results. Organic growth in the most recent quarter was perhaps a hair below what investors had assumed and margins were roughly flattish compared to slight improvements in the recent past. ISS is facing a tough comp in the fourth quarter of this year, which means that quarter's results are unlikely to be very exciting. Investors focused on near-term gains took money off the table in search of greener pastures elsewhere. Though recent results don't change our view about the business, the valuation is not particularly compelling after the past few years' strong gains.

Baidu declined 10% in Q4. Its results are being dragged down by recent regulatory changes. Baidu is now required to more thoroughly vet the quality and legitimacy of customers advertising on its search pages. This requires increased scrutiny and more processing time for customers. As a result, revenue growth has taken a step down as the business rebases. We don't believe that anything has changed with respect to Baidu's competitive position or its attractive long-term growth prospects. We have taken advantage of recent price weakness to add to our position.

For full-year 2016, our top contributors were Samsung Electronics, Tokyo Electron and Telefonica Brasil.

Samsung Electronics gained 40% in 2016. It was actually a mixed year for the company. The mobile division started off on a very promising foot with its new S7 and Note 7 devices launching to very positive reviews and into somewhat of a competitive vacuum. It looked as if the division might have a spectacular year—until of course the battery problems with the Note 7 developed. The company was forced to cancel the product line and spend billions on recall-related costs. On the other hand, the semiconductor division, which is dominated by the memory business, started the year on weak footing but exited with tremendous strength. Demand for memory has been very strong, the industry is capacity constrained, and profits for Samsung are therefore booming. Semiconductor operating profit in the fourth quarter was up around 50% year over year. 2017 is expected to be very strong driven by continued strength in memory and a recovery in the mobile division. In addition, the company has attracted the attention of Elliott Management Corp, a US-based activist investor. Elliott is publicly pressuring the company to increase its cash distributions to shareholders, improve its corporate governance and seek a listing of its shares on the NASDAQ. We agree with Elliott's proposals. Samsung's board of directors lacks global technology experience and does not have enough independent members. The company is significantly overcapitalized, with more than $50bn net cash on its balance sheet, and that net cash continues to grow as the company does not return enough of its annual cash flow to shareholders. Finally, Elliott very correctly points out that despite being one of the largest and most visible technology companies in the world, the shares of Samsung are inaccessible to many global investors because they are only listed on a local Korean exchange. Elliott's involvement has drawn attention to the quality of Samsung's underlying assets and what we view as an extremely cheap valuation. Despite the run in share price, the stock remains at a single-digit PE multiple, adjusting for the net cash on its balance sheet.

Tokyo Electron is a Japan-based supplier of capital equipment to the semiconductor and display industries. Tokyo Electron's share price fell to an attractive valuation back in the spring of 2015, when a planned merger with Applied Materials collapsed. Since that time, the company has embarked on a margin-improvement and capital-allocation program that had been largely mapped out as part of the planned merger. Driven by a backdrop of increased market share and increased product demand, profits have increased, sentiment has improved and the share price shot up over 60% in 2016.

Telefonica Brasil is the dominant mobile network operator in Brazil, and it operates a leading fixed-line business. The stock appreciated 54% in dollars; however, the Brazilian real appreciated roughly 22% versus the dollar, so part of the return was simply from currency. Recall that Brazil has been gripped not only by a severe recession, but also by a political crisis that involved widespread corruption across the government—including the impeachment of President Dilma Rousseff in Q3 and former President Lula's fifth corruption-related indictment in Q4. This crisis is what allowed us to accumulate our Telefonica shares at attractive prices. As the political situation and the economy have begun to stabilize this year—including the swearing in of a new, reform-minded government—the real has recovered a good bit of the value it lost in 2015. Telefonica has continued to perform well throughout the crisis. Indeed, the gains we saw in the stock's value are more related to a change in sentiment toward Brazil rather than any fundamental change in earnings power at Telefonica. The acquisition of broadband operator GVT has gone well, and Telefonica continues to invest in its network ahead of its peers, some of whom are struggling with excess leverage.

Our three worst performers for the year were Royal Bank of Scotland, UBS Group, and Lloyds Banking Group.

Royal Bank of Scotland declined 25% in local currency, but it declined 37% in US dollars. The British pound declined to its lowest levels in decades as a result of the British vote to leave the European Union—the so-called Brexit. The expectation of an economic slowdown in the UK also weighed on the share price, as RBS still has non-core assets to dispose of and outstanding litigation to settle. If the economic environment worsens, the company is likely to have less profit and therefore fewer resources to finance the wind-down of these legacy liabilities. We continue to believe that RBS is significantly undervalued, and that it has the resources to complete its restructuring.

UBS declined 14%. There were a few areas that weighed on results. While the wealth management business continued to attract net new money under management, margins in that business have been under pressure. Clients have been conservative in their asset allocations. This typically means less activity and lower fee products, which impacts UBS's margin as it makes higher profits when clients are more aggressive. The investment banking division also disappointed. Most of the large investment banks have generated very strong results in 2016, but UBS's investment bank has seen profits shrink, as it has more exposure to markets such as Europe and Asia which have been weak. In addition, unlike the US-based bulge-bracket firms, it does not have a large fixed income currency and credit (FICC) business, which has been a very profitable area in 2016. Finally, investors are concerned that the Basel committee will increase risk weightings for European banks, which might lead to increased capital requirements.

Lloyds Banking share price was down 10% in local currency but 24% in dollars. Fundamentally, the performance of the bank through the year has been very good. Core profits have grown nicely, capital returns to shareholders have resumed, and the bank has built a solid capital cushion. Admittedly, the bank continues to suffer from legal fines, but these fines were not a surprise nor out of the realm of our estimates of earnings power. The share price was mainly impacted by sentiment surrounding Brexit and, of course, the currency translation into dollars.

During the fourth quarter we made no meaningful additions or disposals from the portfolio. We have continued to sell down existing positions, as many of our securities are at or near our fair value estimates. As a result, our cash holdings have reached historically high levels of nearly 14%.

The Tyranny of Passivity

We would be remiss if we closed out 2016 without some discussion of what seems like our industry's hottest topic: passive investing. The amount of ink spilled on the subject recently is seemingly matched only by the assets spilling out of active management and into passive vehicles, such as ETFs and index funds. Passive products reached a new record level of AUM in 2016, as they have every year for probably the past decade. The passive train simply keeps rolling and shows no sign of slowing down, much to the dismay of active managers. Of course we are active managers and are clearly not objective observers in this debate! But we don't dispute the fact that most active managers cannot justify their fees, and that low-cost passive investing is an attractive option. Many active managers are closet indexers, and when they charge close to 100bps, it is impossible to compete with index funds that charge 4bps.

That being said, we do see problems with the increasing size of the passive industry, specifically problems related to corporate governance. Because index funds and ETFs are not fundamentally driven, they do not study the businesses they own or the management teams that run them. They do not employ analysts who can determine whether the businesses are creating value or destroying it. They simply buy stock in a company because it is included in some index. This severs the link of supervision between a business and its owners. Just imagine a corporation owned entirely by index funds. There would be no owners studying the financial results, scrutinizing and challenging the decisions of management, and holding executives to account, either in meetings, in the press or at the ballot box when voting a proxy. The management team of this theoretical company would face no mechanism of independent control.

Sponsors of index funds argue against this point. They counter that they do vote their proxies in accordance with corporate governance standards, typically based on the recommendations of proxy consulting firms such as ISS or Glass Lewis. But this type of supervision, in our experience, is procedural rather than substantive. In other words, the vote is based on whether corporations are governed according to best practices. Do they have the right number of executive and independent board members? Do the board members attend all the meetings? Do their compensation practices

align with those of their industry peers? And so on. These points of process are important, but they don't address the most important questions. Are top executives managing the balance sheet well? Are they reinvesting cash flow at attractive rates of return? Are they gaining or losing market share versus their competition? Imagine a democracy that elects its leaders in this fashion. The voter would not study the track record of the candidates, would not listen to their speeches and would know nothing about their policy positions. The only information that would form the basis of the vote would be whether the candidate properly filled out the ethics questionnaire, campaigned according to accepted practices, had a satisfactory attendance record in her prior job and had no criminal or civil judgements outstanding.

This issue is no longer an abstraction. The amount of money now being managed by passive funds has reached levels of significant influence. Passive funds under management now account for a staggering 40%-plus of total AUM invested in domestic large-cap equity funds. In 2005, there were only 12 S&P 500 companies in which passive funds and ETFs held a larger ownership percentage than active managers. Today there are 112. The Vanguard Group's US-based passive mutual funds and ETFs now hold stakes of 5% or more in 468 of the 500 companies in the S&P 500. In 2005, that number was three.

If engaged ownership and accountable management are pre-requisites for a vital corporate sector, we are facing real and far-reaching consequences. If it becomes harder to hold management accountable and remove them if necessary, it becomes harder to sustain strong economic returns across corporate America. We know from our experience in countries like Japan and Korea, among others, that management teams that are insulated from criticism and accountability are a drag on returns on equity and returns on capital. That's bad for shareholders, employees, the economy and the country. So while passive investing is an inexpensive way to own equities, those low fees may not prove to be a good value if corporate returns suffer in the long run. In the end, lower corporate returns translate into lower earnings, cash flow and, ultimately, stock prices.

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. Value securities may underperform other asset types during a given period.

MSCI EAFE Index measures the performance of developed markets, excluding the US and Canada. MSCI EAFE Value Index measures the performance of developed markets companies, excluding the US and Canada, that exhibit value style characteristics according to MSCI. S&P 500® Index measures the performance of 500 US large-cap companies. 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.

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. These holdings comprise the following percentages of the Fund's total net assets (including all classes of shares) as of 31 Dec 2016: UBS Group AG 4.8%, Royal Bank of Scotland Group PLC 3.2%, ING Groep NV 4.0%, Medtronic PLC 2.8%, ISS A/S 2.4%, Baidu Inc 3.8%, Samsung Electronics Co Ltd 4.9%, Tokyo Electron Ltd 2.0%, Telefonica Brasil SA 2.8%, Lloyds Banking Group PLC 2.2%. These holdings comprise the following percentages of the Global Value Fund's total net assets (including all classes of shares) as of 31 Dec 2016: FedEx Corp 1.4%. 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.

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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.

Portfolio statistics are intended to provide a general view of the entire portfolio, or Index, at a certain point in time. Statistics are calculated using information obtained from various data sources. Artisan Partners excludes outliers when calculating portfolio characteristics. If information is unavailable for a particular security Artisan Partners may use data from a related security to calculate portfolio statistics.

Price-to-Earnings (P/E) is a valuation ratio of a company's current share price compared to its per-share earnings. **Book Value** is the net asset value of a company, calculated by total assets minus intangible assets and liabilities. **Return on Equity (ROE)** is a profitability ratio that measures the amount of net income returned as a percentage of shareholders equity. **Return on Capital (ROC)** is a measure of how effectively a company uses the money (borrowed or owned) invested in its operations.

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