# Artisan International Fund

QUARTERLY
Commentary

Investor Class: ARTIX | Advisor Class: APDIX

As of 31 March 2017

## 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
Associate Portfolio Manager

Andrew J. Euretig
Associate Portfolio Manager

## Investment Results (%)

| As of 31 March 2017 | QTD[1] | YTD[1] | Average Annual Total Returns 1 Yr | 3 Yr | 5 Yr | 10 Yr | Inception[2] |
|---|---|---|---|---|---|---|---|
| **Investor Class: ARTIX** | **8.98** | **8.98** | **2.15** | **-1.53** | **4.96** | **2.05** | **8.61** |
| **Advisor Class: APDIX** | **8.99** | **8.99** | **2.32** | **-1.40** | **5.04** | **2.09** | **8.63** |
| MSCI EAFE Index[3] | 7.25 | 7.25 | 11.67 | 0.50 | 5.83 | 1.05 | 4.55 |
| MSCI All Country World ex USA Index[3,4] | 7.86 | 7.86 | 13.13 | 0.56 | 4.36 | 1.35 | 5.00 |

Source: Artisan Partners/MSCI. [1]Returns for periods less than one year are not annualized. [2]Investor Class inception: 28 December 1995. Advisor Class performance is that of the Investor Class from 28 December 1995 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. [3]Inception 31 Dec 1995. [4]Performance represents the MSCI ACWI ex USA (Gross) Index from inception to 31 Dec 2000 and the MSCI ACWI ex USA (Net) Index from 1 Jan 2001 forward.

| Expense Ratios | ARTIX | APDIX |
|---|---|---|
| Annual Report 30 Sep 2016 | 1.19 | 1.01 |
| Prospectus 30 Sep 2016[1] | 1.19 | 1.01 |

[1]See prospectus for more information.

**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

International equities advanced markedly in Q1, benefiting from solid earnings trends, post-US election optimism and signs of a strengthening global economy. Periodic setbacks to President Trump's agenda led to short spurts of volatility, but ultimately investors cheered the prospect for heightened infrastructure spending, lower corporate taxes and looser regulations under the new administration.

In the equities markets, the 2016 value rotation sharply reversed in Q1 as growth stocks broadly led value. The trend was further reflected in the outperformance of the technology and health care sectors, signaling a preference for secular growers over more cyclical and commodity-oriented stocks. In turn, the energy sector, a standout in 2016, pulled back with the price of oil. Regionally, non-US equities led US, while emerging markets led developed.

Returns for USD-based investors were augmented by a stronger euro and yen versus the dollar—perhaps reflecting expectations for tapering by central banks in Europe and Japan given new signs of growth. Indeed, inflation expectations remain elevated from year-ago levels, and actual inflation ticked up across much of the world, though partly owing to energy prices. The progress was especially notable in Europe: In January, for the first time in almost four years, none of the euro zone's 19 members experienced deflation. Further, euro zone factory activity rose to a six-year high while the jobless rate fell to an eight-year low. In Japan, the long-stagnant economy showed some signs of life: Annualized Q4 2016 GDP growth of 1.2% was less than stellar but nonetheless represented the country's fourth consecutive quarter of growth. Still, the ECB and BOJ left their stimulus programs unchanged. Conversely, the US Fed raised its target rate for the third time since December 2015 and hinted at two more rate hikes this year. Markets took the news in stride.

## Performance Discussion

After a year in which energy and commodities dominated markets, the quarter's rotation toward companies with stable earnings growth was more conducive to our process. Our portfolio outpaced the MSCI EAFE Index, benefiting from positive stock selection in health care, consumer discretionary and technology. Our below-benchmark exposure to the energy sector also contributed favorably to our relative performance.

Additionally, we benefited from a rebound in several of our larger Q4 2016 detractors, including European media company Liberty Global, Chinese e-commerce company Alibaba and global payments company Wirecard.

Liberty Global has alleviated some competitive pressures in the Netherlands by completing a Dutch joint venture with Vodafone. Partly as a result, the company has bolstered its cash position and announced plans to increase buybacks this year. The stock has been volatile in recent quarters, but we remain attracted to Liberty's market-share dominance, pricing power and superior broadband network speeds vis-à-vis its telco competitors. While still early to gauge the outcome, the company's newly initiated major expansion plan across the UK, Germany and Eastern Europe could add significant upside over the next few years. Longer-term, we also believe wireless operators will increasingly rely on Liberty's network infrastructure for excess capacity as they begin rolling out 5G.

Alibaba is China's largest e-commerce company operating the country's most popular online marketplaces. The company is achieving strong growth in its core commerce segment and has made progress building its cloud business. We remain attracted to the secular growth prospects in online and mobile commerce—particularly given China's still-low penetration rate versus major developed markets. In mobile, we see significant room for monetization from currently low ad-penetration rates. Further, we believe the company can leverage its massive stockpile of consumer data for more personalized marketing and, ultimately, increased user engagement.

Meanwhile, Wirecard is successfully integrating accretive acquisitions in higher-growth Asian markets, and more recently in the US. Wirecard recently completed the purchase of US-based pre-paid card business Citi Prepaid Services, providing the company with the opportunity to cross-sell and deepen its relationships with a large base of Fortune 200 clients. Ultimately, we see Wirecard as one of the best-positioned companies to participate in the secular growth of e-commerce globally.

Conversely, Japan Tobacco was among the mere handful of holdings that detracted in Q1. Company guidance came in weaker than expected in 2017, with management citing an expected industry-wide reduction in cigarette volumes in Japan combined with heavier competition in the newer e-cigarette/vaping category from rivals such as Philip Morris. We remain investors but trimmed our position in the quarter. Steel pipe supplier Tenaris and mining company MMC Norilsk Nickel—both smaller positions—also detracted in Q1 after losing ground in February, though both companies rallied in March.

## Positioning

Following several portfolio adjustments in Q4 2016, our Q1 2017 positioning remained relatively unchanged. We opened a position in SAP, an enterprise software company we see capable of generating stable growth given its sticky customer base with very little churn.

We also reopened a position in Samsung Electronics—a Korea-based multinational electronics conglomerate with a wide range of products, including semiconductors, mobile handsets, display technology and consumer electronics, among others. We took advantage of what we saw as an attractive valuation, representing a roughly 20% discount to peers. In our view, the company's largest growth driver is its semiconductor (memory) business, currently accounting for roughly 30% of revenues but nearly 60% of profits. The semiconductor business houses development of memory for both computation (DRAM) and storage (NAND). Memory is a highly

consolidated market—just three major players control the DRAM market and four major players control NAND. Not only is Samsung the market-share leader in both memory types, but its technologies are also several months ahead of the competition. For example, the company largely pioneered the development of 3D NAND—a technology that stacks memory cells in a single chip for significantly expanded capacity. While memory can be a more cyclical market, we think the company is in a sweet spot to leverage its leadership position to command higher prices as demand skyrockets for connected devices (e.g., mobile, servers, PCs and autos). Outside of memory, we see a number of additional growth drivers, including the company's near monopoly in OLED, a mobile phone display technology. Further, Samsung is considering a restructuring that, if completed, could lead to a share re-rating.

On the sales side, we exited British American Tobacco as shares approached our target valuation.

## Outlook

Looking forward, we think there are plenty of catalysts for ongoing earnings growth. Global growth appears to be broadening to more cyclical parts of the economy such as manufacturing, as well as across geographies outside of the US. Manufacturing activity is picking up in the US, Asia and Europe, evidenced by measures of business spending on machinery and equipment. The Japanese economy—heavily dependent on exports—is on more solid footing. And European inflation appears to be stabilizing. As such, we are now finding pockets of sustainable growth in areas that a year or two ago looked less compelling to us.

However, we're also realistic about the potential for downside risk, especially at this later stage of the bull market. The political climate—including the outcome of elections in Europe and President Trump's political agenda—is an evolving landscape we can't endeavor to predict. Regardless of the outcomes, we will remain focused on factors inside of our control: finding companies with sustainable competitive advantages trading at reasonable valuations.

**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 Index measures the performance of developed markets, excluding the US and Canada. MSCI All Country World ex USA Index measures the performance of developed and emerging markets, excluding the US. MSCI EAFE Value Index measures the performance of developed markets companies, excluding the US and Canada, that exhibit value style characteristics according to MSCI. MSCI EAFE Growth Index measures the performance of developed markets companies, excluding the US and Canada, that exhibit growth style characteristics according to MSCI. 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 Mar 2017. 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 International Fund's total net assets as of 31 Mar 2017: Liberty Global PLC 4.0%; Alibaba Group Holding Ltd 3.2%; Wirecard AG 2.2%; Japan Tobacco Inc 3.2%; Tenaris SA 0.6%; MMC Norilsk Nickel PJSC 0.6%; Samsung Electronics Co Ltd 1.2%; SAP SE 0.5%. 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.

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