Artisan International Small Cap Fund

QUARTERLY
Commentary

Investor Class: ARTJX

As of 30 June 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
Portfolio Manager

Investment Results (%)

As of 30 June 2017	QTD[1]	YTD[1]	Average Annual Total Returns 1 Yr	3 Yr	5 Yr	10 Yr	Inception[2]
Investor Class: ARTJX	**9.11**	**15.56**	**10.22**	**-1.21**	**8.85**	**3.50**	**11.55**
MSCI EAFE Small Cap Index	8.10	16.72	23.18	5.60	12.94	3.41	10.44
MSCI EAFE Index	6.12	13.81	20.27	1.15	8.69	1.03	6.15

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

Expense Ratios	
Semi-Annual Report 31 Mar 2017[1]	1.55%
Prospectus 30 Sep 2016[2]	1.52%

[1]Unaudited, annualized for the six month period. [2]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 small-cap equities advanced in Q2 as markets responded to a pick-up in global growth and solid corporate earnings. Further, Macron's election victory in France buoyed sentiment as it raised hopes of reforms, not only in France, but throughout the euro zone. Strength was fairly broad-based as all sectors participated in the advance, save energy—a top performer in 2016—as commodity-oriented stocks generally lagged. The energy sector was weak on the reemergence of oil-market volatility as increased oil production from US shale has hampered OPEC's efforts to temper supply via production cuts.

Growth stocks outpaced their value peers, a continuation from Q1. This was evidenced by outperformance of technology and health care stocks, as markets generally favored secular growers over commodity-oriented stocks. The MSCI EAFE Small Cap Growth Index outgained the MSCI EAFE Small Cap Value Index by 163bps in Q2 and 314bps YTD. Even so, the value index is ahead by more than 500bps over the one-year period ended June 30, 2017. International small caps outpaced their larger peers as the MSCI EAFE Small Cap Index outperformed the MSCI EAFE Index by about 200bps in Q2 and nearly 300bps YTD.

From a regional perspective, non-US equities—developed and emerging markets—outperformed US equities in US dollar terms, due partly to euro appreciation over the dollar. Economic recovery in Europe, coupled with market-friendly outcomes in European elections that reduced perceived political risk, provided a favorable backdrop for the euro. European small caps returned 10% in USD but less than 5% in local terms. Japanese small caps returned about 6% in USD.

Inflationary pressures remain weak in most major economies, allowing central banks to keep monetary policy highly accommodative as they seek to spur faster economic growth. In the euro zone, the ECB's QE program is currently making €60bn in monthly asset purchases while maintaining its benchmark interest rate at zero. However, comments by ECB policy makers in June suggest the central bank is preparing markets for tapering of stimulus over the coming year. In Japan, the BOJ left its existing policy of QE and yield curve control in place with the 10-year bond yield capped at 0%. In the US, the Fed continued its steady pace of tightening—hiking its target rate in June—the fourth time since December 2015. The Fed also provided more detail on upcoming balance sheet normalization as it seeks to unwind its $4.5 trillion bond portfolio. Nonetheless, US financial conditions remain easy as corporate borrowing costs are still historically low.

Performance Discussion

Our portfolio produced a strong absolute result and outpaced the MSCI EAFE Small Cap Index in Q2. Currency effects were a meaningful contributor to our results. We benefited from a strong euro and weak Japanese yen due to our above-benchmark exposure to Europe and modest position in Japan. Additionally, the growth-stock performance advantage worked in our favor, in contrast to 2016's value-led market, which had acted as a relative headwind.

Our top contributors included Berendsen, HomeServe and Wirecard. Berendsen, a European contract linen and laundry business, agreed to a takeover offer from industry peer Elis (also held in the portfolio), valuing Berendsen's shares at a 45% premium. Berendsen had initially rebuffed Elis's offer, contending that it undervalued the company, but accepted the revised bid. We believe a deal makes sense for both sets of shareholders. We exited our positions in both names in June as shares approached our target valuations.

UK-based HomeServe provides emergency home repair services in Europe and the US, where it is seeing strong customer growth and retention. The company's 2016 acquisition of US-based Utility Service Providers is accelerating its geographic expansion as it seeks to boost profit growth and diversify away from a mature UK market (roughly 40% of revenues). The company is also growing nicely in its other major markets of France and Spain. We remain attracted to the company's industry leadership in a niche market, and see it poised for further expansion into new verticals and territories.

Wirecard, a global payments company, is successfully integrating accretive acquisitions in higher growth Asian markets, and more recently in the US. It 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. It is also experiencing solid organic revenue growth driven by transaction volumes. We believe Wirecard is well positioned to benefit from the secular shift from cash-based transactions to cashless forms of payment.

Key detractors during the quarter included Ginko International and Cosmax. Taiwan-based contact lens maker Ginko—whose major market is China—is contending with FX headwinds from a weaker RMB. However, on a constant-currency basis, the company is growing revenue at mid-teen percentage rates, which is faster than the overall market. We're still attracted to Ginko's market-share dominance in the fast-growing Chinese market, and the stock remains one of our biggest positions in the portfolio.

Cosmax is a Korea-based cosmetics manufacturer that sells non-branded products to major cosmetics brands such as L'Oreal and Shiseido. Increased operating costs related to the installation and operation of new automation equipment has dented near-term profits even as sales growth continues to outpace the broader market. Deteriorating relations between the South Korean and Chinese governments also pressured shares as China is a major market for the company. The company's heavy exposure to growing Chinese consumer demand—both in China and among Chinese tourists in Korea—remains appealing; however, we trimmed our position in recognition of near-term headwinds.

Portfolio Positioning

We opened a handful of new positions during the quarter, the largest of which were Banco Comercial Português (BCP), Banco del Bajío (BanBajío) and Dalata Hotel Group.

BCP is the largest private bank in Portugal. The company has recapitalized its balance sheet and improved its asset quality following the country's debt crisis, allowing its Portuguese business to generate its first profit since 2010. Improved underlying growth in the European economy is a positive for the bank, as is the potential for rising interest rates. The stock is selling cheaply as well, at just 0.7X book value.

BanBajío is a medium-sized commercial bank in Mexico (ranked 8th based on loans) with a leading position in the attractive SME segment of the commercial lending market and the faster growth Bajío region. Increasing loan penetration in Mexico is a structural driver of growth. Additionally, the balance sheet is one of the strongest in Mexico with the second-highest CET1 ratio—a measure of capital strength.

Dalata is an Irish hotel group that owns and operates hotels in Ireland and the UK. Dalata is the largest hotel operator in Ireland with 20% market share. The company was established in 2007 by former executives from luxury hotel group Jurys Doyle. We think the management team is strong and like the decentralized business model that provides hotel managers with autonomy over day-to-day matters. The company also has a sizable multi-year development pipeline to drive future growth.

New purchases were funded in part by sales of previously discussed Berendsen and Elis. We also exited our position in Sydbank, a Denmark-based regional bank, as shares approached our target valuation.

Outlook

After a slowdown in 2015 and 2016, global growth appears to be gaining momentum as growth broadens to more cyclical parts of the economy, such as manufacturing, as well as across geographies outside of the US. Improved economic growth has coincided with the synchronized upswing in global corporate profits that has powered equity markets higher.

However, we're also realistic about the potential for downside risk, especially at this later stage of the bull market. Geopolitical and policy uncertainties are increasing. The geopolitical backdrop—including the UK's path to Brexit and President Trump's agenda—is ever-evolving and especially difficult to handicap. Markets, no doubt, will keep a close eye on worldwide central bank actions. Meanwhile, portfolio positioning remains focused on our themes and geared toward what we consider to be dominant, high-quality companies that are exposed to positive secular trends. As always, we will maintain our focus on sustainable growth, placing a high amount of conviction behind companies we believe offer sustainable competitive advantages, strong management teams and reasonable valuations.

Business Update

In May, the team added analyst Nikola (Nik) Legetic, CFA. Nik is a multi-sector analyst primarily focusing on energy, materials, emerging markets and financials. Prior to joining Artisan, Nik was an analyst at GQG Partners LLC, where he covered emerging markets, global and international equities. Earlier in his career, he was an equity research analyst at Raymond James Financial/Eagle Asset Management, where he focused on financial services and energy. Nik is fluent in Serbo-Croatian.

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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 Small Cap Growth Index measures the performance of small-cap companies in developed markets, excluding the US and Canada, with higher forecasted and historical growth rates. MSCI EAFE Small Cap Value Index measures the performance of small-cap companies in developed markets, excluding the US and Canada, with lower price/book and forward price/earnings ratios. 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 30 Jun 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 Fund's total net assets as of 30 Jun 2017: HomeServe PLC 2.7%; Wirecard AG 5.5%; Ginko International Co Ltd 2.9%; Cosmax Inc 2.0%; Banco Comercial Portugues SA 1.8%; Banco del Bajio SA 1.6%; Dalata Hotel Group PLC 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.

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