# Artisan Developing World Fund

QUARTERLY
Commentary

Investor Class: ARTYX | Advisor Class: APDYX

As of 30 June 2017

Portfolio Management
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Dear Fellow Shareholder:

Artisan Developing World Fund (Investor Class) returned 8.89% for the quarter ended June 30, 2017, versus 6.27% for the MSCI Emerging Markets Index (all returns in USD unless stated otherwise). The US Federal Reserve's continued resolve to raise interest rates and consider a smaller balance sheet despite the absence of inflationary pressures was supportive of at least a pause in recent US dollar weakness. Thus, in contrast to the currency-driven rally of recent months, the MSCI Emerging Markets Currency Index returned a more modest 113bps this quarter (1Q17: 476bps). Instead, markets were influenced by the continued rally in global technology and Internet companies (the MSCI Emerging Markets Technology Index returned 15.47% during the quarter), and in turn in shares that dominate EM country gauges in China, Korea and Taiwan. These three markets comprise approximately 55% of the MSCI Emerging Markets Index, and were up 10.57%,10.21% and 8.77% during the quarter. European-linked shares also performed well given the positive election outcome in France and continued evidence of economic momentum in the Eurozone, with Greece (+33.82%), Hungary (+19.37%), and Poland (+13.62%) all performing well. Weaker markets during the quarter generally reflected deterioration in the domestic or international political backdrop. Qatar declined 10.88% as Saudi Arabia and its partners from across the Sunni Arab world cut off diplomatic and economic ties with Qatar. Russia declined 10.03% as the US Senate voted to enact new sanctions against Russia. Brazil fell 6.67% as President Temer was allegedly caught on tape accepting bribes from meat processing company JBS, thereby placing pension and other reforms at risk.

## Contributors and Detractors

Top contributors to performance for the quarter included five Chinese firms: e-commerce leader Alibaba, quick-service restaurant operator Yum China, video surveillance company Hikvision, gaming and social platform Tencent and airport operator Shanghai International Airport. Shares of Alibaba rose as the company raised revenue guidance, thereby affirming the potential of its data-driven business model to accelerate growth in its core e-commerce platform. Yum advanced on better-than-expected same store sales which helped increase investor confidence in the company's recovery potential and drive valuation multiples higher. Hikvision rose due to investor enthusiasm for its existing commercial security business, its potential in emerging fields such as artificial intelligence (AI), and potential index inclusion (MSCI in June announced plans to add mainland China A-shares to its emerging market indices). Tencent rose due to continued momentum in its gaming business, which has leveraged the company's existing strength in its Wechat social networking platform and PC gaming business to drive momentum in mobile games. Shares of Shanghai International Airport benefited from continued business momentum, enthusiasm for potential concession rate increases in its duty free business, and potential A-share inclusion.

Key detractors from performance for the quarter included Indian pay TV provider Dish TV India, Russian food retailer Magnit, Mexican broadcaster Grupo Televisa, Russian bank Sberbank and South African packaged goods company Pioneer Foods. Shares of Dish TV India fell on the heels of sharp deterioration in average selling prices, perhaps influenced by demonetization which had a more pronounced impact on Dish subscribers given the company's more rural and low income skew. Magnit declined due to poor same store sales despite investment store refurbishments, as the business continues to suffer from both macroeconomic and competitive pressures. Grupo Televisa declined due to disappointment in the company's advertising segment, despite an initial healthy upfront ad season earlier in the year. Sberbank declined as sanctions dampened sentiment toward Russia, and as the potential for lower interest rates threatened to exert downward pressure on the bank's net interest margins. Pioneer struggled during the quarter due to the negative impact of soft commodity price pressures, FX headwinds in the company's international businesses and the one-off impact of maize hedging activities.

## Market Outlook

As emerging markets indices ascend, we continue to observe the increasing narrowness with which the rally has taken place. Notably, large companies have performed better than small companies, and strength has been concentrated in the technology sector. As such, we have been more transactional than usual in an effort to retain value in the portfolio, though note an opportunity set that remains conducive to doing so. One of the hallmarks of our business value compounding framework remains flexibility. For example, when we feel we are overpaying for compounding, we have the flexibility to pivot to companies that are compounding business value in depressed economic environments, even though the potential for value realization may not be evident today. We also have the flexibility to think about the domestic demand opportunity in different ways, both by considering companies domiciled in developed markets, and by capturing the domestic demand opportunity through new vehicles as economies evolve. For example, in China, per capita GDP levels are now supportive of demand for services including health care and travel, and our portfolio counts two Chinese health care companies and a Chinese airport operator among its top 13 holdings. The result is a portfolio that we believe can continue to compound business value over time while maintaining true to its mission of domestic demand, financially sound companies, and business model emphasis.

It is also worth noting that the fund just completed its second year. As we ultimately measure ourselves not on short term results but on the delivery of an emerging market outcome over time that emphasizes domestic demand, compounded returns, and a repeatable framework for mitigating volatility, we would like to take this anniversary to introduce the presentation of our results since June 30, 2015, which we will now highlight at the introduction of each quarterly letter. Since June 30, 2015, Artisan Developing World Fund (Investor Class) has returned 18.94% cumulatively, versus 8.83% for the MSCI Emerging Markets Index.

We thank you for your trust and confidence.

## Investment Process

We seek to capitalize on opportunities in developing world economies by investing in companies that compound business value over a market cycle, while mitigating the volatility of returns.

## 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: ARTYX** | **8.89** | **21.72** | **25.30** | — | — | — | **9.26** |
| **Advisor Class: APDYX** | **8.97** | **21.78** | **25.56** | — | — | — | **9.49** |
| MSCI Emerging Markets Index | 6.27 | 18.43 | 23.75 | — | — | — | 5.03 |

Source: Artisan Partners/MSCI. [1]Returns for periods less than one year are not annualized. [2]Fund inception: 29 June 2015.

| Expense Ratios (% Gross/Net) | ARTYX | APDYX |
|---|---|---|
| Semi-Annual Report 31 Mar 2017[1] | 1.38/— | 1.20/— |
| Prospectus 30 Sep 2016[3] | 1.53/1.50[2] | 1.25/— |

[1]Unaudited, annualized for the six month period. [2]Reflects a contractual Fund expense reimbursement agreement in effect through 31 Jan 2018. [3]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.**

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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. Such risks include new and rapidly changing political and economic structures, which may cause instability; underdeveloped securities markets; and higher likelihood of high levels of inflation, deflation or currency devaluations. 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.**

MSCI Emerging Markets Index measures the performance of emerging markets. The MSCI Emerging Markets (EM) Currency Index will track the performance of twenty-five emerging-market currencies relative to the US Dollar. The MSCI Emerging Markets (EM) Information Technology Index measures the performance of information technology companies across the countries included in the MSCI EM Index. 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: Magnit PJSC 4.2%; Alibaba Group Holding Ltd 4.1%; Grupo Televisa SAB 3.0%; Tencent Holdings Ltd 3.0%; Shanghai International Airport Co Ltd 2.8%; Dish TV India Ltd 2.3%; Sberbank of Russia PJSC 2.2%; Hangzhou Hikvision Digital Technology Co Ltd 1.5%; Yum China Holdings Inc 1.5%; Pioneer Foods Group Ltd 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.

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