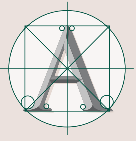

Artisan Developing World Fund

QUARTERLY Commentary

Investor Class: ARTYX | Advisor Class: APDYX | Institutional Class: APHYX

As of 31 March 2018

Portfolio Management

Lewis S. Kaufman, CFA

Dear Fellow Shareholder:

Artisan Developing World Fund (Investor Class) returned 0.4% for the quarter ended March 31, 2018, versus 1.4% for the MSCI Emerging Markets Index (all returns in USD unless stated otherwise). Since inception (June 29, 2015), Artisan Developing World Fund has returned 33.0% cumulatively, versus 29.7% for the MSCI Emerging Markets Index. The MSCI Emerging Markets Index was up 9.9% YTD through late January, only to relinquish most of those gains due to the spike in market volatility measures, increased visibility around US interest rate increases and escalating trade tensions. Currency was not a significant component of returns this quarter, as investors seemed to pause to digest the implications of higher US interest rates for the weak dollar environment. By country, Brazil was the best performing emerging market this quarter (+12.4%), which in the absence of constructive political developments or domestic demand recovery seems to have been driven by the rebound in agricultural commodity prices (soy futures +9.8%, corn futures +10.5%). Russia was also a standout performer (+9.5%) during the quarter despite continued uncertainty over the Russian influence on US elections and the expulsion of Russian diplomats after the poisoning of a Russian spy in the United Kingdom, likely due to the upward move in oil prices (crude futures +5.1%). India struggled this quarter (-7.0%) as the oil price increase pressured external accounts and the currency, and due to a spike in Indian bond yields. South Africa also declined during the quarter (-4.2%) as investors assessed the reform trajectory for South Africa, following some initial enthusiasm over a change of leadership in the ruling ANC party.

Contributors and Detractors

Top contributors to performance for the quarter included Chinese educational services provider TAL Education Group, Russian Internet search company Yandex, Chinese pharmaceutical distributor Sinopharm, Chinese airport operator Shanghai International and Macau casino operator Galaxy Entertainment. TAL continues to benefit from the insatiable demand for youth tutoring services, and from margin resilience in the face of deeper regional expansion. Yandex continues to benefit from the penetration of core search in Russia, and from a deal with Uber to merge taxi operations thereby providing a path to both profitability and monetization for this asset. Sinopharm saw margin expansion in both its distribution and retail pharmacy businesses and improvements in working capital dynamics and cash flow, and also benefited from a decline in SHIBOR interest rates which benefit the company's financing costs. Shanghai Airports reported strong results aided by improving traffic trends and increased passenger growth, despite continued landing restrictions. Galaxy rose as the company continues to benefit from both broad industry recovery and market share gains in its core properties, which have allowed it to broadly exceed earnings expectations.

Key detractors from performance for the quarter included Brazilian educational leader Kroton Educacional, consumer goods company Reckitt Benckiser Group, Brazilian health benefits administrator Qualicorp, Indian telecom infrastructure firm Bharti Infratel and Brazilian electronic payments solutions company Cielo. Kroton is battling a tough macroeconomic backdrop in Brazil as high unemployment has pressured enrollments and churn, while reduced availability of government finance has further depressed the student base and mix. Similarly for Qualicorp, high unemployment and weak wage growth exacerbated customer sensitivity to medical cost inflation, which has led to member losses and negative mix shift. Reckitt Benckiser continues to face challenges in its core business including limited category growth and margin pressure, while uneven execution and concerns around potential acquisitions also pressured shares. Bharti Infratel's fundamentals have been impacted by an aggressive new market entrant in wireless telecommunications, which had led to customer consolidation for tower operators and pressure on pricing and tenancies. Cielo struggled as the company continues to suffer from a difficult competitive and economic backdrop, despite significant decreases in market interest rates in Brazil.

Market Outlook

The recently passed fiscal stimulus in the United States has increased growth and inflation expectations for market participants and US policy makers, while raising the prospect of increased fiscal issuance. In addition, new Federal Reserve Chair Jerome Powell has emphasized policy continuity with his dovish predecessor, but also introduced higher median interest rate forecasts while noting a strengthening economic outlook. Combined with the tightness in the labor market, it is not surprising that the yield on 10-year US Treasuries has increased from 2.41% at year end to 2.74% today. While there is some debate about whether real interest rates have increased significantly, the reality is that policy and rate differentials between the US Federal Reserve and European Central Bank have unquestionably widened in recent months. These dynamics would typically be supportive of a stronger dollar, yet the dollar continues to languish against most currencies, as visible in the ~13% decline in the US Dollar Index (DXY) since its December 2016 peak. While it is unclear how this underlying friction between bond and currency markets will be resolved, a resumption in dollar strength represents a key risk for emerging markets capital flows, inflation expectations and monetary policy.

The recent increase in trade tensions is also worth discussing. Certainly, the current US administration has been vocal about its desire to renegotiate NAFTA and challenge multilateral trade bodies. However, the recent increases in aluminum and steel tariffs

(albeit with some targeted exemptions) combined with demands for China to narrow its trade surplus with the US are new developments. There are certainly reasons to think these concerns and specifically concerns around a trade war with China are overblown. For example, China sells a small fraction of its steel and aluminum production to the US, such that the economic consequences to China should be small. While China can be expected to retaliate, it also has some room to make concessions that will appease the US but were also probably inevitable, such as tariff reductions consistent with its current stage of wealth and development. In addition, while the US may seek a reduction in trade imbalances, some market participants also have noted that broader measures of trade that include not only exports, but also goods manufactured and sold within the two countries' borders, would suggest that underlying imbalances are relatively small. If these assumptions prove incorrect, the implications are unpredictable but could include external imbalances for China, funded by the sale of US Treasuries. They could also include lower global growth, which is already likely in the later stages of the current cycle.

Compounding Outcome

In our most recent letter, we discussed the acceleration in global growth, and the lag with which emerging markets in aggregate had experienced cyclical recovery so far. Perhaps implicit in this observation is the notion that developing countries are basically low-penetration places. For a country to realize its development potential, the right combination of capital, labor and productivity is essential. A decade into global economic recovery, it is becoming increasingly evident that some major developing countries are unlikely to realize their economic growth potential without changes to their development model. For example, of the BRIC countries, only India is likely to experience significant growth in the working-age population over time. Other countries such as South Africa have abundant labor, but need to address a skills and capital shortage for the demographic dividend to be realized. As incremental returns on new capital formation tend to decline as a country's indebtedness rises (e.g., China and Brazil post financial crisis), that often leaves productivity to carry the growth baton. In China, this seems to be occurring due to supply-side reforms and significant investment in artificial intelligence, big data, robotics and automation. India, too, will likely benefit from a strong productivity story as the population urbanizes and workers move into higher-paying and more essential jobs, and off the farm. As a domestic-demand fund premised on the notion that low penetration should drive better compounding outcomes over time, it is incumbent on us to find opportunities where low-penetration opportunities will ultimately be realized. In other words, low penetration is a necessary but not sufficient condition for value realization, and domestic-demand weakness can persist in an environment of corruption, high leverage, constrained demographics or low productivity. We believe these considerations to be crucial as we pursue our compounding outcome, and some recent portfolio changes can be viewed through this lens.

It is also worth noting that February (-4.6%) and March (-1.9%) were both significant down months for the MSCI Emerging Markets Index after a 14-month period that included just one negative month (September 2017, -0.4%). We have endeavored to construct the portfolio in a way that adds value during these periods (i.e., our foundational approach to risk management based on our differentiated correlation and currency profiles). While achieving performance with distinct characteristics in up and down markets is in our view inherently desirable, we also want to continue to emphasize that our ultimate goal is a compounding outcome in the emerging markets. That is why our foundational approach to managing risk is so important—it is designed to provide the portfolio stability and funding sources to reinforce our compounding outcome in down markets. Said differently, we wish to be in a position to deploy capital in down markets, when future returns are likely to be highest.

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 implementing a forward-looking construct for managing risk.

Investment Results (%)

			Average Annual Total Returns				
As of 31 March 2018	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception[1]
Investor Class: ARTYX	**0.39**	**0.39**	**21.30**	—	—	—	**10.91**
Advisor Class: APDYX	**0.47**	**0.47**	**21.56**	—	—	—	**11.14**
Institutional Class: APHYX	**0.47**	**0.47**	**21.70**	—	—	—	**11.25**
MSCI Emerging Markets Index	1.42	1.42	24.93	—	—	—	9.89

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

Expense Ratios	ARTYX	APDYX	APHYX
Annual Report 30 Sep 2017	1.40	1.21	1.12
Prospectus 30 Sep 2017[1]	1.40	1.21	1.12

[1]See prospectus for further details.

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.

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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 U.S. Dollar Index (DXY) measures the value of the US Dollar against a basket of foreign currencies. 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 2018. 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 Mar 2018: TAL Education Group 2.0%, Yandex NV 2.7%, Sinopharm Group Co Ltd 2.6%, Shanghai International Airport Co Ltd 4.1%, Galaxy Entertainment Group Ltd 2.8%, Kroton Educacional SA 1.1%, Cielo SA 3.2%. 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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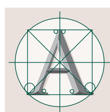
A R T I S A N  P A R T N E R S