# Artisan Global Discovery Fund

QUARTERLY
Commentary

Investor Class: APFDX

As of 30 June 2018

## Investment Process

We seek to invest in companies that possess franchise characteristics, are benefiting from an accelerating profit cycle and are trading at a discount to our estimate of private market value. Our investment process focuses on two distinct elements—security selection and capital allocation. We overlay our investment process with broad knowledge of the global economy.

### Security Selection

We seek to identify companies that have franchise characteristics (e.g. low cost production capability, possession of a proprietary asset, dominant market share or a defensible brand name), are benefiting from an accelerating profit cycle and are trading at a discount to our estimate of private market value. We look for companies that are well positioned for long-term growth, which is driven by demand for their products and services, at an early enough stage in their profit cycle to benefit from the increased cash flows produced by the emerging profit cycle.

### Capital Allocation

Based on our fundamental analysis of a company's profit cycle, we divide the portfolio into three parts. Garden℠ investments are small positions in the early part of their profit cycle that may warrant more sizeable allocations as their profit cycle accelerates. Crop℠ investments are positions that are being increased to a full weight because they are moving through the strongest part of their profit cycles. Harvest℠ investments are positions that are being reduced as they near our estimates of full valuation or their profit cycles begin to decelerate.

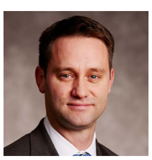
### Broad Knowledge

We overlay the security selection and capital allocation elements of our investment process with a desire to invest opportunistically across the entire global economy. We seek broad knowledge of the global economy in order to find growth wherever it occurs.

## Team Overview

We believe deep industry expertise, broad investment knowledge, a highly collaborative decision-making process and individual accountability are a powerful combination. Since the inception of the team, we have been committed to building a team of growth investors that retains these attributes and is solely dedicated to our process and approach.

### Portfolio Management


Jason L. White, CFA
Portfolio Manager (Lead)


James D. Hamel, CFA
Portfolio Manager


Matthew H. Kamm, CFA
Portfolio Manager


Craigh A. Cepukenas, CFA
Portfolio Manager

## Investment Results (%)

| As of 30 June 2018 | QTD | YTD | Average Annual Total Returns: 1 Yr | 3 Yr | 5 Yr | 10 Yr | Inception[1] |
|---|---|---|---|---|---|---|---|
| **Investor Class: APFDX** | **4.44** | **9.92** | — | — | — | — | **18.23** |
| MSCI All Country World Index | 0.53 | -0.43 | — | — | — | — | 9.00 |

Source: Artisan Partners/MSCI. Returns for periods less than one year are not annualized. [1]Fund inception: 21 August 2017.

| Expense Ratios | Gross | Net[1] |
|---|---|---|
| Semi-Annual Report 31 Mar 2018[2] | 1.99% | 1.50% |
| Prospectus 30 Sep 2017[3,4] | 2.08% | 1.50% |

[1]Reflects a contractual expense limitation agreement in effect through 31 Jan 2019. [2]Unaudited, annualized for the six-month period. [3]Includes estimated expenses for the current fiscal year. [4]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. The Fund's investments in initial public offerings (IPOs) made a material contribution to performance. IPO investments may contribute significantly to a small portfolio's return, an effect that will generally decrease as assets grow. IPO investments may be unavailable in the future. The Fund's returns may vary greatly over shorter periods due to the limited operating period since inception.**

## Investing Environment

Q1's volatility continued in Q2 against a backdrop of substantially similar macroeconomic concerns. Foremost among them was the increase in global protectionist rhetoric—becoming increasingly tit-for-tat between the US and China. Nevertheless, US stocks managed to close in the black as economic fundamentals largely remain intact. Foreign developed stocks were also modestly positive. In contrast, emerging markets finished Q2 in negative territory, pressured not only by threatened tariffs, but also growing investor concern about the potential impact of rising developed-world interest rates.

On the monetary policy front, the US Fed raised rates 25bps as expected in June, to a target range of 1.75%-2.00%. Across the pond, the BOE held steady but hinted at a potential hike in Q3. The ECB—which had been moving toward a modestly tighter stance by indicating it could slow and possibly stop its bond purchases sometime this year—reversed direction, recommitting itself to a data-dependent approach. The Bank of Japan has maintained its similarly accommodative posture—the net effect of which is a growing divergence among the major developed-world central banks.

With rates poised to rise in the US, many presumed a bleaker outlook for emerging markets, anticipating fund flows to higher-yielding assets. Along with the US dollar's YTD strength, these factors likely contributed to emerging markets' relative underperformance in Q2—with more vulnerable countries like Argentina and Turkey particularly challenged. That said, most impacted governments thus far seem to be taking actions to shore up investor confidence. Argentina, in particular, worked expeditiously with the IMF to secure funding, likely helping the country avert a broader currency crisis.

From a style standpoint, growth stocks continue outperforming their value counterparts, and US-based small stocks are outperforming their larger counterparts. Among foreign developed markets, there was relatively little size distinction in Q2. At the sector level, energy led US and global indices, tied partly to rising oil prices. Technology and consumer discretionary were also leading sectors. Conversely, the financials sector was among the bottom performers in Q2, both in the US and abroad.

## Performance Discussion

Our portfolio outperformed the MSCI AC World Index in Q2 and remains ahead year to date. Overall, we have been pleased with the performance of the portfolio's Crop℠, which we believe remains well-positioned looking forward. Strength remains fairly broad-based at the sector level, with notable contributions from our financials and industrials holdings in particular. Though our discretionary holdings trailed benchmark peers, they were in the black, and we are generally pleased with the progression of those profit cycles.

While we have been pleased with the portfolio's performance for the quarter and year to date, we have simultaneously maintained our disciplined approach to valuations, paring our exposure to companies whose valuations have risen in favor of Garden℠ holdings which we believe are earlier in their profit cycles and consequently have longer runways ahead. We will share further thoughts on portfolio activity later in this communication.

Among our top individual contributors in Q2 were Tableau, Boston Scientific and Teledyne Technologies. We believe technology spending is currently in a favorable place—providing a positive backdrop on which Tableau is capitalizing with its new management team and product offerings. As companies are increasingly capturing and storing massive amounts of data, Tableau is a leading innovator helping these firms maximize those data's value—an increasingly important endeavor as future Internet disruptors have revealed the necessity of being data-driven to remain competitive. As Tableau takes share in this growing space, it is simultaneously transitioning to the cloud and a subscription-based model, which is generating attractive levels of recurring revenue. We believe this combination of a favorable secular backdrop, cyclical spending and a solid management team focused on accelerating new product innovation and the transition to a subscription model are pointing Tableau in the right direction, in turn boosting shares.

Boston Scientific's management team has reinvigorated the business over the last five years, focusing on higher growth categories within medical devices and investing in a diversified set of new products. The company's dramatically improved innovation output and operational execution have led to meaningful margin gains. With some of the most interesting new product launches yet to come in 2019-2020, and with margins still below its peers', we believe this profit cycle still has significant life ahead of it.

Teledyne Technologies—our largest holding—is a supplier of ultra-sensitive components and sensors to various end markets. Over time, the company's exposure to defense electronics, combined with its increased focus on instrumentation, testing measurement and sensors, has resulted in a positive mix shift that is generating higher margins. Importantly, we believe the company is in the middle innings of this journey, and as its revenues grow, those portfolio shifts are increasingly showing through in results—with the stock following those results higher.

Among our bottom Q2 contributors were Genmab, Techtronic and Linx. Shares of Genmab were pressured in Q2, but we believe the sell-off will ultimately prove temporary. Genmab announced in late May that its blockbuster drug Darzalex™ failed to add any benefit to lung cancer patients when dosed in combination with Johnson & Johnson's PD-1 therapy—an outcome which removes some optionality for the drug. However, its significant longer-term potential in multiple myeloma remains intact. Further, the company's pipeline potential beyond Darzalex™ remains compelling. We believe investors overreacted to the disappointing trial results and are watching for signs of a reacceleration from here.

Crop℠ holding Techtronic has worked against us not just in Q2, but for the year to date. Shares have been pressured by the combination of heightened protectionist rhetoric, which many fear could weigh on sales, as well as the company's ongoing investments in product development. Further, investors have signaled concern that an imminent rate-hike cycle—particularly in the US—could weigh on housing construction and with it, Techtronic's sales. However, we believe Techtronic remains in the early innings of a compelling profit cycle thanks to its exposure to several significant new markets in which it is just beginning to release new products. We have held Techtronic for its first-mover advantage in the evolution toward cordless, lithium ion battery-operated power tools. It is just beginning to expand into offerings such as lawnmowers, chainsaws, leaf-blowers and other similar larger power tools—all sizeable categories with meaningful growth potential which we believe will ultimately outweigh the aforementioned macro concerns. We capitalized on the recent pullback to add to our position.

Linx is a Brazilian provider of point-of-sale and enterprise resource planning (ERP) software, primarily for the retail sector. Our thesis has been that, as an industry leader, the company would benefit from ongoing growth in Brazil's retail sector, combined with growing software penetration and a heightened government focus on tax compliance—an area in which Linx's products are particularly beneficial. Though the company's results have been fine, several quarters into our investment campaign, we did not believe they were progressing sufficiently to support the profit cycle we originally envisioned. With the position still in the Garden℠, we chose to exit our position in favor of more compelling opportunities elsewhere.

## Portfolio Activity

As mentioned earlier, we have been very conscious of valuations as the bull market has continued—our disciplined approach has led us to pare our exposure to holdings whose profit cycles remain in motion but whose valuations have risen with their stock prices. Conversely, we've thoughtfully added to positions we believe are earlier in their profit cycles. Among the holdings we've pared relative to their valuations are Diamondback, Halma, Treasury Wine Estates, Shiseido, Fevertree and ASML Holding. Conversely, we've added to First Republic, Progressive, Techtronic, FLIR Systems, Temenos, Takeaway.com and IMCD, among others. As always, we will maintain our disciplined approach in coming quarters.

Ongoing volatility has also led us to new, attractive opportunities—among them, Eicher Motors, which we introduced to the Garden℠ in Q2. Based in India, Eicher is the oldest motorcycle brand in the world. Given its brand awareness and position in the Indian mid-market, it spends very little on marketing. Importantly, Eicher's motorcycles are differentiated from competitors' products, most of which tend to be scooters with smaller engines. In contrast, Eicher's products are larger, with more powerful, generally 350-500cc engines—resulting in an aspirational offering to India's population. We believe the company is on the cusp of an upgrade cycle in India, which, combined with its brand heat, should lead to accelerating sales growth. Further, Eicher is in the process of ramping its business in other emerging markets where its brand similarly resonates—including Colombia, Brazil, Indonesia and Thailand, among others. Though Eicher's presence in these new markets is quite young, early signs are promising. We believe Eicher is consequently well-positioned in front of an attractive confluence of potential secular tailwinds, and we therefore initiated a position in Q2.

We exited our positions in Maisons du Monde and Hypera in Q2. Maisons du Monde is an emerging homewares and home-furnishing retailer in Europe, aimed primarily at the "affordable aspirational" segment. We first invested in the company on the thesis that it would take share as it consolidated a fragmented market, supported by an improving macroeconomic environment, not only globally, but particularly in Europe. We further anticipated it would capitalize on its strong omni-channel platform and complementary multi-channel offerings as it expanded into new international markets, including the US. However, given the investments we now anticipate will be required to establish a beachhead in the US, we believe we may have been early with our thesis. With the position still in the Garden℠, we chose to exit in favor of better-positioned opportunities elsewhere.

Having divested its cosmetics and staples businesses, Hypera had recently transformed itself into a pure-play, Brazil-based pharmaceuticals company. We first introduced it to the portfolio tied to our expectation that its renewed sense of focus would allow it to drive a virtuous profit cycle over time, aided by the secular tailwind of an improving Brazilian macroeconomic backdrop. However, a recent scandal tied to the CEO's past actions has hampered the share price. With our thesis delayed at best, and better opportunities elsewhere, we chose to upgrade our capital and exited our Garden℠ position.

## Portfolio Statistics

As of June 30, the portfolio had a median market cap of $9.4 billion and a 3-5 year forecasted weighted average earnings growth rate of 20%. Our holdings were selling at a weighted harmonic average P/E (excluding negative earnings) of 26X FY1 earnings and 22X FY2 earnings. As of quarter end, we held 55 positions. Our top 20 holdings accounted for roughly 55% of portfolio assets as of quarter end. Our top 30 holdings represented about 72% of portfolio assets.

## Perspective

While the economy appears healthy and earnings momentum in the portfolio has been solid year to date, ratcheting global trade tensions have undoubtedly contributed to 2018's notable uptick in volatility. Many have expended significant efforts trying to determine how much of the rhetoric is posturing and how much might represent the early days of a meaningful retrenchment in global trade activity. We doubt we possess any unique ability to handicap this debate. We do suspect, however, that the skirmishes to date have likely injected enough frictional costs and future uncertainty to have at least some impact on business results within areas such as automotives and semiconductors. Ultimately, however, we believe an escalating trade war would impact all equities.

With this uncertain backdrop, and with the MSCI AC World having just generated its first negative quarter in the last 10 quarters, the short-term instinct to "sell in May and go away" is certainly understandable. However, with our longer-term time horizon, we continue to see substantial long-term profit cycle opportunities within the portfolio. Automotive technology suppliers are a case in point—tariffs may impact global supply chains and profits in the near term, but over a multiyear period, we think rising electronics content (assisted driving, infotainment) and electric vehicle growth have the potential to transform well-positioned suppliers such as Delphi, Visteon and Cree. With a potential trade war having injected short-term uncertainty/volatility—but also cheaper valuations—we're holding on, while (as always) focusing on franchise quality and balance-sheet strength.

Our secular growth-driven holdings in software and health care are more insulated from the first-order trade war concerns, and these stocks are certainly more favored by the market today. While we're staying disciplined on valuations, we continue to feel quite positive about the near- and long-term profit cycle outlooks for our Crop℠ holdings. For example, Guidewire's software (which dominates the competitive landscape) is still used to help manage less than 20% of the world's property and casualty insurance premiums—yet when we consider the company's ability to cross-sell its expanding product portfolio, its runway for long-term growth is even larger.

While consumer discretionary stock selection hurt returns during the quarter, we were actually encouraged to find several new Garden℠ investments in this area. While most brick-and-mortar and otherwise Amazon-exposed consumer businesses remain uninteresting to us, we have found a small number of growth brands with limited storefronts and strong e-commerce presence who are seeing accelerating revenue and profit growth. One such example is Canada Goose. Eicher Motors, which we mentioned earlier in this letter, is also a differentiated consumer franchise which we believe is well-positioned.

Stated simply, while there are reasons to be concerned about the current bull market's sustainability, we have conviction in the compounding potential of our holdings over time. If macroeconomic disruption—such as a trade war—impacts the economy and markets along the way, we'll look to our valuation guidelines as well as the quality of our franchises and their balance sheets to provide some degree of downside protection. And regardless of the environment, we will maintain our disciplined approach to managing portfolios which has served us well over the team's long history.

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 All Country World Index measures the performance of developed and emerging markets. 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 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 comprise the following percentages of the Artisan Global Discovery Fund's total net assets as of 30 Jun 2018: Teledyne Technologies Inc 4.7%, Guidewire Software Inc 3.7%, Boston Scientific Corp 3.0%, First Republic Bank 2.7%, Tableau Software Inc 2.7%, IMCD NV 2.6%, ASML Holding NV 2.4%, Techtronic Industries Co Ltd 2.2%, Fevertree Drinks PLC 2.2%, Treasury Wine Estates Ltd 2.0%, Temenos AG 1.9%, The Progressive Corp 1.7%, Genmab A/S 1.5%, Visteon Corp 1.5%, Halma PLC 1.5%, Delphi Technologies PLC 1.5%, Diamondback Energy Inc 1.4%, Shiseido Co Ltd 1.4%, FLIR Systems Inc 1.1%, Cree Inc 1.1%, Takeaway.com NV 0.9%, Eicher Motors Ltd 0.5%, Canada Goose Holdings Inc 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.

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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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. **Weighted Average** is the average of values weighted to the data set's composition. **Weighted Harmonic Average** is a calculation of weighted average commonly used for rates or ratios. **Market Cap** is the aggregate value of all of a company's outstanding equity securities. **Earnings Growth Rate** is the annual rate at which a company's earnings are expected to grow. **Price-to-Earnings (P/E)** is a valuation ratio of a company's current share price compared to its per-share earnings. **Private Market Value** is an estimate of the value of a company if divisions were each independent and established their own market stock prices.

Our capital allocation process is designed to build position size according to our conviction. Portfolio holdings develop through three stages: Garden℠, Crop℠ and Harvest℠. Garden℠ investments are situations where we believe we are right, but there is not clear evidence that the profit cycle has taken hold, so positions are small. Crop℠ investments are holdings where we have gained conviction in the company's profit cycle, so positions are larger. Harvest℠ investments are holdings that have exceeded our estimate of intrinsic value or holdings where there is a deceleration in the company's profit cycle. Harvest℠ investments are generally being reduced or sold from the portfolios.

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