Artisan Global Value Fund

QUARTERLY
Commentary

Investor Class: ARTGX | Advisor Class: APDGX | Institutional Class: APHGX

As of 30 June 2018

Investment Process

We seek to invest in high-quality, undervalued companies with strong balance sheets and shareholder-oriented management teams.

Undervaluation

Determining the intrinsic value of a business is the heart of our research process. Intrinsic value represents the amount that a buyer would pay to own a company's future cash flows. We seek to invest at a significant discount to our estimate of the intrinsic value of a business.

Business Quality

We seek to invest in companies with histories of generating strong free cash flow, improving returns on capital and strong competitive positions in their industries.

Financial Strength

We believe that investing in companies with strong balance sheets helps to reduce the potential for capital risk and provides company management the ability to build value when attractive opportunities are available.

Shareholder-Oriented Management

Our research process attempts to identify management teams with a history of building value for shareholders.

Team Overview

Our team has worked together for many years and has implemented a consistent and disciplined investment process. Our team is organized by geographic regions, but within those regions we are generalists who look across all industries. We believe this model enables our analysts to become broad thinkers and gain critical insight across all economic sectors.

Portfolio Management

Daniel J. O'Keefe
Portfolio Manager (Lead)

N. David Samra
Portfolio Manager

Investment Results (%)

			Average Annual Total Returns				
As of 30 June 2018	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception
Investor Class: ARTGX	**-1.18**	**-3.08**	**5.77**	**7.63**	**8.92**	**9.83**	**7.75**
Advisor Class: APDGX	**-1.12**	**-3.03**	**5.89**	**7.76**	**9.01**	**9.87**	**7.79**
Institutional Class: APHGX	**-1.12**	**-3.03**	**5.95**	**7.86**	**9.16**	**9.97**	**7.88**
MSCI All Country World Index	0.53	-0.43	10.73	8.19	9.41	5.80	4.05

Source: Artisan Partners/MSCI. Returns for periods less than one year are not annualized. Class inception: Investor (10 December 2007); Advisor (1 April 2015); Institutional (17 July 2012). For the period prior to inception, each of Advisor Class and Institutional Class's performance is the Investor Class's return for that period ("Linked Performance"). Linked Performance has not been restated to reflect expenses of the Advisor or Institutional Class and each share's respective returns during that period would be different if such expenses were reflected.

Expense Ratios	ARTGX	APDGX	APHGX
Semi-Annual Report 31 Mar 2018[1,2,3]	1.24	1.09	1.01
Prospectus 30 Sep 2017[3]	1.27	1.12	1.04

[1]Excludes Acquired Fund Fees & Expenses as described in the prospectus. [2]Unaudited, annualized for the six-month period. [3]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.

Market Overview

It's feeling increasingly like a two-speed market. Growth companies—especially technology—are moving ahead. The rest of the market seems stalled or moving backward as clouds gather on the economic horizon: trade war fears, higher oil prices and rising US interest rates. The high valuations nearly everywhere over the past few years offer a tough starting point for companies facing any kind of cyclical or structural earnings headwind.

The S&P 500® Index's performance during Q2 is instructive. The index was up about 3%, but the bulk of that return came from three very large, very expensive growth companies: Amazon, Netflix and Microsoft. Note that the average P/E of the three is 97X. The future clearly looks bright—very bright—in investors' eyes. Year to date, Amazon accounts for 35% of the index's return, Microsoft 18% and Netflix 14%. Another consideration: The technology sector accounted for over 50% of the index's Q2 return and almost 100% of the YTD return.

Perhaps it's becoming a winner-take-all market, reflecting what sometimes feels like a winner-take-all economy. On June 28, Amazon announced the acquisition of PillPack, signaling its entry into the pharmaceutical distribution business. Walgreens Boots, CVS Health and Rite Aid collectively lost $11bn of market value on the announcement, while Amazon gained about $20bn that same day. That feels more like "winner-take-all, and-then-some." The "Amazon Effect," which we wrote about in our Q4 2017 letter, seems alive and well. Amazon trades for 130X earnings with CVS and Walgreens each around 9X. Given the challenges faced by CVS and Walgreens, they do not strike us as obvious bargains even at that multiple.

The story rhymes in Europe. The region doesn't have much of a technology industry, but investors there have shown a similar preference for companies with reliable growth prospects. The top-five performers in the EURO STOXX 50 Index sell at 25X earnings. The bottom-five performers trade for about 10X earnings. Note that cyclical companies in Europe—especially auto companies—have been clobbered over the past several months.

That point is worth re-emphasizing: Cyclicals in Europe are getting clobbered. Exhibit 1 shows just a few examples.

Exhibit 1: European Cyclicals—A Rough Time

	Q2 2018 Return (%)	P/E (FY1)
Electrolux	-26	12X
Renault	-27	5X
Daimler	-20	6X
Saint Gobain	-13	11X
Deutsche Lufthansa	-22	5X

Source: FactSet. As of 30 Jun 2018. **Past performance is not indicative of future results.**

Emerging markets haven't done much better than European cyclicals. That's not surprising, given the combination of a strong US dollar and trade war fears. Emerging markets depend heavily on exports, and companies there often borrow in dollars because of a lack of fully developed capital markets. Emerging markets are estimated to have about one trillion in US dollar-denominated debt—a stronger greenback and rising US interest rates mean higher costs in servicing and repaying that debt.

Most emerging markets were down mid-single digits for the quarter and still more in USD thanks to local-currency weakness. Brazil was clobbered—down 15% in local currency and 26% in USD due to political paralysis, continuing corruption scandals and an upcoming election in which the leading candidate is currently in prison.

It should be no surprise that our work lists are now filling up in a way they have not in some time. Unfortunately, most of the stock price graphs that grab the attention are not those of the highest quality companies. Cyclical, low ROE, highly leveraged businesses are the ones suffering the most now. No thank you. We require more than just a low P/E to get us excited.

But after years of seemingly endless and indiscriminate share-price appreciation, we are encouraged by the pessimism that is seeping into some corners of the market.

Portfolio Discussion

The portfolio's top contributors in Q2 were Imperial Oil, Tesco and Advance Auto Parts.

Imperial Oil, Exxon Mobil's Canadian operation, gained 26% in the quarter largely due to rising oil prices (all returns in USD unless otherwise stated). Results in the upstream (oil sands mining) business improved modestly, with production flattish but higher oil price realizations. Imperial's realizations are still depressed relative to benchmark prices due to transportation and market access bottlenecks. Strength in the downstream businesses (refining and chemicals) compensated for modest progress upstream as lower feedstock costs helped drive earnings. Imperial announced a share buyback program, which we view favorably. The key to value realization at Imperial is improvements in production, where the company's largest mine, Kearl, continues to produce meaningfully below nameplate capacity levels. A narrowing of the gap between Imperial's realizations and the WTI benchmark is also a source of significant earnings upside.

Tesco gained 18% in Q2 as the company's fundamentals continue improving. Margins accelerated in the second fiscal half to 3%, and investors are now beginning to discount management's 3.5%-to-4% margin goal. Like-for-like revenues also continue to move ahead, and Tesco is gaining share in a difficult food market. This investment has been a difficult and, over shorter periods, a disastrous one. With the recent share-price recovery and a lot of averaging down over the past few years, the investment is now merely a bad one.

Advance Auto Parts rose 15% this quarter. This stock has gone mostly straight up since we bought it in September 2017. Recent results were decent, though nothing too thrilling. The share-price gain seems due as much to easing concerns about Amazonian encroachment as to business improvements. In the most recent quarter, like-for-like sales were negative y/y but improved relative to recent quarters. Margins did improve at both the gross and operating levels, indicating product-mix improvements, pricing discipline and cost controls are taking hold. Bottom-line earnings increased meaningfully due to margin gains and the US corporate tax rate cut.

Our largest detractors for the quarter were Telefonica Brasil, Yahoo Japan and Samsung Electronics.

Telefonica Brasil declined 21% in Q2, but much of that was due to the Brazilian real's 15% fall against the US dollar. The rest was due to a general selloff in Brazil. Telefonica's business is doing well considering Brazil remains mired in recession with stubbornly high unemployment. In the most recent quarter, revenue climbed a couple of percent, costs fell and profits grew high single digits. Telefonica Brasil is Brazil's leading and best mobile network operator, and when the economy stabilizes and/or grows, we believe Telefonica's results will improve along with it. The company has a virtually debt-free balance sheet, generates free cash and trades at a modest multiple of earnings. We added to our position in the quarter.

Yahoo Japan declined 29% in Q2. The massive investment program that Yahoo Japan initiated in 2017 to accelerate growth has yet to generate anything but lower margins. Operating margins were 25% in 2016, 20% last year, and this year are likely to be about 15%. We had expected margin stability and then growth as investments started to pay off. Further impacting the share price, Yahoo's second-largest shareholder, Altaba, has initiated its liquidation plan. Driven not by fundamentals but by a corporate mandate, Altaba is selling 36% of Yahoo Japan's shares outstanding into the public market. Smartly, management recently announced a 10% share repurchase at prices well below our estimate of intrinsic value. Despite the company's competitive challenges, Yahoo Japan has significant potential. Online advertising in Japan is underpenetrated compared to other developed economies, and Yahoo Japan has a strong market position in both online advertising and in e-commerce. The question is whether it can successfully evolve in a fast-moving industry.

Samsung Electronics was down 10% this quarter and is down roughly the same amount year to date. Yet, recent results have been good. In fact, results released in April set another quarterly record, with operating profit up nearly 60% year over year. With the stock at 6X earnings and 4X operating profit, and net cash equal to about 20% of the market cap, investors clearly don't believe the current earnings base is sustainable. Arguably, the current valuation discounts profits' falling by half or more. That is certainly possible in the near term, though we believe it unlikely in the long term. And in that distinction lies the heart of the bull case on Samsung.

The majority of Samsung's profits is made in its memory semiconductor division. Investors with long memories will recall how volatile this industry has been. Fifteen years ago, it was a fragmented industry that boomed and busted as marginal players added capacity at the wrong time, driving down prices. End demand was mostly a function of stop-and-start launches from Microsoft and Intel. Since then, two things have changed. First, the industry has consolidated around three players, with Samsung commanding nearly half the market and each player behaving rationally. Second, memory semiconductors have proliferated into multiple areas: servers, phones, tablets, cars and just about anything that runs a processor. Demand is more widespread and growth is more secular as digital technologies infiltrate just about every area of life. So while we believe a cyclical downturn is certainly possible, we believe the industry's long-term outlook is positive and its structure rational enough such that a downturn is unlikely to be a disaster. Six times earnings and net cash look like a pretty good deal to us.

Our activity has picked up recently as the markets have become more volatile. We added three new significant holdings, the most in a single quarter in quite some time.

Expedia is one of the world's two dominant online travel agents, providing mostly online hotel reservations. This is a global duopoly with good secular growth tailwinds. Online penetration is only 30%-50% depending on the geography—that rate is almost certain to grow meaningfully over time. The company is currently investing heavily in building relationships and brand awareness in Europe. This is expensive in the near term and has pressured margins and the share price. But we believe it should be very profitable in the long term because of the large and fragmented nature of the European hotel industry. We believe Expedia's margins should normalize in the mid-teens range versus the current, high single-digit range. And just as important, we believe revenues will grow at a very attractive rate. We paid about 25X current earnings for the stock, which is fair. At our normalized margin level, the P/E drops to about 9X. The balance sheet is net cash, and the business generates good free cash flow.

Our long-term shareholders might recognize another name we added this quarter: Sodexo. Sodexo is the world's second-largest catering company behind Compass Group. Outsourced catering and facilities services is a secular-growth industry, characterized by high returns on capital and strong free cash flow. We had been a shareholder of Compass Group from 2009 to 2017 and previously held Sodexo from 2009 to 2011.

2018 marked the retirement of the company's CEO and the second year of significant changes at the board level. As new leadership has gained control, the extent of the issues created by prior management's strategy became visible in slower growth and lower margins. During Q2, new management reduced the profit outlook for the business, laid out a significant repudiation of the prior management's strategy and announced a strategic review. The aim of the new strategy is to re-orient the business back toward core catering contracts, which should improve growth and margins over time. The opportunity is significant given the material difference in margins earned by Sodexo compared to those earned by Compass.

In Q2, shares of Sodexo were purchased at a low- to mid-teens multiple, which will prove to be very cheap if new management can improve the business, or very cheap if management can get margins toward those earned by Compass Group.

Nestle is a name that we have had prior experience with in our non-US portfolio. Nestle is the largest food company in the world, with a number of very attractive positions in infant formula, nutrition, coffee, bottled water and pet food.

There are three problems with Nestle that create a gap between the current price and fair value for shareholders. First, the company's revenue performance has been deteriorating for several quarters. Part of this is portfolio-related. Nestle still has a decent number of slow-growth businesses that are dragging down the company's overall growth rate. Second, Nestle's margins are below benchmark levels. Third, the company has excess capital that should be redeployed. We are referring primarily to Nestle's stake in L'Oreal, which is currently worth €27bn or about 13% of Nestle's market cap. This is a purely financial holding that should be disposed of and the proceeds used to repurchase shares.

We believe these issues can be addressed, and the company's new CEO Mark Schneider is committed to lifting margins. However, the company is slow-moving and bureaucratic, and Mr. Schneider is moving with insufficient urgency. Third Point capital, a US-based activist fund, has taken a stake in the company and is attempting to accelerate the pace of change. Third Point is working with one of the best executives in the packaged-foods industry, and together they have put forward a credible operating and financial plan, which would create significant value for Nestle's owners.

We exited our positions in Philips, TE Connectivity, Citizens Financial Group and Diageo. All reached our estimates of intrinsic value.

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. Value securities may underperform other asset types during a given period.

MSCI All Country World Index measures the performance of developed and emerging markets. S&P 500® Index measures the performance of 500 US companies focused on the large-cap sector of the market. MSCI Europe Index measures the performance of developed markets in Europe. EURO STOXX 50 Index is an index of 50 blue-chip stocks domiciled in the euro zone. 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. These holdings comprise the following percentages of the Fund's total net assets (including all classes of shares) as of 30 Jun 2018: Microsoft Corp 0.9%, Imperial Oil Ltd 2.3%, Tesco PLC 3.0%, Advance Auto Parts Inc 2.5%, Telefonica Brasil SA 2.8%, Yahoo Japan Corp 1.3%, Samsung Electronics Co Ltd 4.7%, Expedia Group Inc 1.9%, Sodexo SA 1.6%, Nestle SA 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.

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.

This material is provided for informational purposes without regard to your particular investment needs. This material shall not be construed as investment or tax advice on which you may rely for your investment decisions. Investors should consult their financial and tax adviser before making investments in order to determine the appropriateness of any investment product discussed herein.

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.

Price-to-Earnings (P/E) Ratio measures how expensive a stock is. Earnings figures used for FY1 and FY2 are estimates for the current and next unreported fiscal years. **Free Cash Flow** is a measure of financial performance calculated as operating cash flow minus capital expenditures.

Artisan Partners Funds offered through Artisan Partners Distributors LLC (APDLLC), member FINRA. APDLLC is a wholly owned broker/dealer subsidiary of Artisan Partners Holdings LP. Artisan Partners Limited Partnership, an investment advisory firm and adviser to Artisan Partners Funds, is wholly owned by Artisan Partners Holdings LP.

A R T I S A N P A R T N E R S