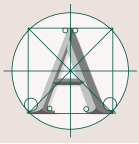


Artisan International Value Fund

QUARTERLY
Commentary

Investor Class: ARTKX | Advisor Class: APDKX | Institutional Class: APHKX

As of 30 September 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

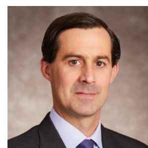
Our research process attempts to identify management teams with a history of building value for shareholders.

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

N. David Samra
Portfolio Manager (Lead)



Ian P. McGonigle, CFA
Co-Portfolio Manager

Joseph Vari
Co-Portfolio Manager

Investment Results (%)

As of 30 September 2018	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception
		Average Annual Total Returns					
Investor Class: ARTKX	**1.26**	**-4.58**	**-1.99**	**8.70**	**5.45**	**9.24**	**12.38**
Advisor Class: APDKX	**1.29**	**-4.48**	**-1.87**	**8.85**	**5.57**	**9.30**	**12.42**
Institutional Class: APHKX	**1.31**	**-4.42**	**-1.79**	**8.94**	**5.69**	**9.46**	**12.55**
MSCI EAFE Index	1.35	-1.43	2.74	9.23	4.42	5.38	7.92
MSCI All Country World ex USA Index	0.71	-3.09	1.76	9.97	4.12	5.18	8.41

Source: Artisan Partners/MSCI. Returns for periods less than one year are not annualized. Class inception: Investor (23 September 2002); Advisor (1 April 2015); Institutional (1 October 2006). 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	ARTKX	APDKX	APHKX
Semi-Annual Report 31 Mar 2018[1,2,3]	1.17	1.03	0.95
Prospectus 30 Sep 2017[3]	1.24	1.09	1.02

[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.

Market Overview

In our Q2 commentary, we described what feels like a two-speed market. Nothing much has changed. Growth stocks—particularly the largest technology stocks like Apple, Microsoft and Amazon—continue to pull away from the more cyclical areas of the market. Much fanfare sounded when Apple became history's first trillion-dollar stock; when joined by Amazon, barely a peep. This is what the market expects now.

The global economy is telling a similar, two-speed tale: the US, and then everything else in its wake. US economic data have been some of the strongest in recent memory—thanks at least partly to corporate tax reform and a general spirit of deregulation from President Trump's administration. That combination seems to have unleashed some animal spirits, to say the least.

The rest of the world can't seem to keep up. We have European economies that never seemed to regain their footing after their debt crises, a UK economy operating in a Brexit-related fog, and a spate of countries (certainly not least of which is China) facing the threat of meaningfully altered trade parameters with the US.

YTD figures at the close of Q3 tell the story: The US market (as measured by the S&P 500® Index) is up 10.6%, while the MSCI EAFE Index is down 1.4% and the MSCI Emerging Markets Index is down 7.7% (all figures in USD, unless otherwise stated). Some of that ex-US weakness is undoubtedly due to a strengthening US dollar—the MSCI EAFE Index is up 1.4% YTD in local-currency terms. But the dollar isn't strengthening in a vacuum. At least some of the ongoing global divergence can likely be attributed to the growing pressure from the US, including heightened protectionist rhetoric and rising interest rates. The former is bringing a multitude of countries to the negotiating table—Japan, Europe, Korea, China, Mexico, Canada—while the latter is showing some of the cracks in the emerging world, particularly in countries like Turkey. Global reactions, too, have been varied—from Turkey's increasingly sharp turn toward autocracy to Mexico's shift in a more populist direction and Argentina's (and possibly Brazil's, judging by recent election results) potentially more market-oriented turns.

As we write this in mid-October, markets are offering a reminder that money does have a cost and cash does have value. Both of those arguments seem unconvincing when interest rates are very low to negative. Funding investments at investment hurdles linked to low-to-no-cost money only survives as long as interest rates remain depressed. Higher rates inevitably bring more interesting alternatives, risk-free or not. Cash to take advantage of those opportunities becomes then increasingly valuable. A decade of quantitative easing made these self-evident truths easy to ignore. Perhaps they are coming back into focus.

The truism that the value of an asset is the present value of its future cash flows may also be taking firm hold of the stock market. With interest rates rising, present values are falling. Risk-free rates are rising, as are risk premiums, which in our view have sunk to very low levels across the wide field of global markets. Riskier assets dependent on low rates and ample liquidity—such as emerging markets, cyclical capital goods companies and highly leveraged businesses—are seeing risk premiums rise/valuations decline. The S&P 500® Index in mid-October is up only modestly for the year—though the technology-heavy NASDAQ is still up 8%. Equities in other parts of the world are decidedly down in local currency and worse in US dollars, given the decline of most currencies relative to the dollar.

Some will say volatility is increasing. As value investors, we merely note that share prices are falling and opportunities increasing. Work lists are filling up, and the portfolios we manage are trading at a wider discount to our assessment of true worth.

Portfolio Discussion

Arch Capital Group, Medtronic and Novartis were the top contributors during Q3.

Arch Capital is a Bermuda-based property and casualty insurer. Earlier in the year, the share price fell tied to a combination of factors—chief among them negative pricing trends in the mortgage insurance industry, Arch's largest line of business. In the wake of US corporate tax reform and against the backdrop of a highly competitive industry, mortgage insurers were pressured to pass along lower rates to customers—an outcome which investors feared would impact insurers' ROE. However, in Arch's case, the impact of lower insurance rates is largely offset by the tax benefit—a result which was reflected in a strong Q2 earnings report (announced in Q3). Shares consequently bounced back in Q3 and are down just slightly YTD.

Medtronic is the world's largest manufacturer of medical devices. In 2017, the company launched fewer new products than it has historically. Compounding this slowdown were Hurricane Maria, which forced Medtronic to temporarily shutter its Puerto Rico manufacturing facility, and poor cash-flow generation. Management has worked through those issues in 2018, resolving the manufacturing issues and building a solid pipeline of new products. Revenue growth has picked up, operating profitability has improved, and earnings are converting to cash at a higher rate—which has contributed to shares up 16% in Q3 and 24% YTD.

Novartis is one of the world's largest pharmaceutical manufacturers. Over the past few years, several large patent expirations combined with competitive pressures at Alcon, the group's ophthalmic business, have challenged revenue growth. However, Novartis has successfully launched several new products in 2018, which should help counter some of the impact of declining revenues from now off-patent products, with an additional benefit to both revenue and operating margin. Novartis has also announced the spin-off of Alcon, which we think is value-accretive. Investors rewarded shares with a 14% increase in Q3, though it is up only 5% YTD.

The bottom contributors in Q3 were Telefonica Brasil, Bayer and ING Groep.

Telefonica Brasil is Brazil's leading cellular service provider. Though the share price fell 15% during the quarter, fundamentally, Telefonica is in good condition. It has the leading position in cellular services, which has continued to grow through Brazil's recession—albeit slowly and below the rate of inflation. Telefonica is also a leader in broadband services, with network growth offsetting the majority of declines in the group's traditional fixed-line telephone operations. Amid a slow-growth revenue environment, management has done an excellent job cutting costs, resulting in mid-single digit growth in operating earnings and significant improvement in free cash flow. That said, the company has been caught in the Brazilian stock market's downdraft and a decline in the Brazilian real versus the dollar.

Bayer is a German manufacturer of pharmaceuticals and crop chemicals. Earlier in the year, the company completed the acquisition of Monsanto. Unfortunately, as part of the purchase, the company assumed the potential liabilities associated with cancer claims against Monsanto's largest product, Roundup. During the quarter, the company lost a lawsuit to a single claimant in the state of California, resulting in a jury award of $289 million. Prior to acquiring the shares, we had reviewed these claims and found that all meaningful research on Roundup concluded the product is safe. Unfortunately, there is one study done by an arm of the World Health Organization that lists Roundup as a *possible* carcinogen (emphasis ours). The judge allowed the study to be entered as evidence by the plaintiff, and the jury subsequently relied on it in its judgment. Though we believe the study amounts to junk science, the vagaries of the US legal system in a politically charged environment in the state of California created the potential for a huge liability on the roughly 8,000 cases outstanding. Bayer's share price consequently was down 26% in our portfolio in Q3, and we exited the investment at a permanent loss.

ING is a Netherlands-based banking group operating across Europe. Fundamentals at the bank are solid, exhibiting consistent growth at a decent ROE along with strong capital ratios. During the quarter, the shares fell alongside the general decline in European bank shares. Shares were further pressured as the bank was fined $900 million by the US Department of Justice for poor controls relating to money laundering. After falling more than 8% in the quarter, we increased the portfolio's ownership. The stock is very cheap, trading at 88% of book value, with a P/E of 8.5X earnings and yielding over 6%.

We exited several smaller positions in Q3 as they hit our estimates of intrinsic value. These include Philips and Rolls Royce. In addition, as mentioned, we disposed of the entire investment in Bayer. On the buy side, we made two new investments during Q3: Allergan and NXP Semiconductors.

Allergan is a specialty pharmaceutical company. More than two-thirds of the company's value derives from two distinct businesses: Botox, which is used for cosmetic and therapeutic applications, and medical aesthetics. Botox is a unique compound and is particularly valuable. Unlike most pharmaceuticals, it has broad brand recognition. It is also a drug that must be administered via injection by the prescribing physician, and the cost of the product to the end customer is a combination of the physician's labor for the injection as well as the cost of the drug itself. This creates an unusual affinity between the physician and the drug. It is also a biological compound which is difficult to replicate. These characteristics have helped create a franchise that is growing and with high, defensible market share. In our estimate, Botox accounts for about 40% of Allergan's value. The medical aesthetics business excluding Botox is also very attractive. It includes anti-aging specialty pharmaceutical products, as well as breast implants and services such as CoolSculpting for body-fat reduction. These product lines also have strong brands, market positions and prospects for growth. They account for approximately 25% of Allergan's value.

The rest of Allergan is a mixture of branded pharmaceutical products. A decent share of this revenue stream is losing patent protection over the next two years, creating a significant revenue headwind. This is the main reason the stock is attractively priced at about 12X free cash flow. We believe the earnings will effectively stall for the next couple of years as part of the revenue base erodes to generics, which should be offset by the continued growth of Botox and medical aesthetics. Once the generic erosion is past, earnings should start to grow again at an attractive rate.

NXP Semiconductors is a business we got to know through the Global Value strategy holding in Qualcomm (QCOM). QCOM signed an agreement to acquire NXP almost two years ago, and the deal recently fell through. NXP is one of two dominant suppliers of semiconductors to the automotive industry, and one of the top-five suppliers of analog semiconductors for general industrial uses. As the world becomes increasingly electronic and connected, that drives demand for analog semiconductors. This is particularly true in the automotive industry where cars are becoming not just electric and connected, but also autonomous. NXP leads in some of the most attractive areas of the automotive market, and it generates nearly 30% operating margins and prodigious free cash flow. The balance sheet is strong after years of cash generation and deleveraging, and management is committed to returning the cash to shareholders.

Business Update

On September 10, 2018, we announced a meaningful change to our team's organizational structure, which took effect on October 1, 2018: We evolved into two distinct and autonomous investment teams—the International Value team led by David Samra and the Global Value team led by Daniel O'Keefe.

We believe that talent is our most important asset. Over the last many years, we have developed and retained four key individuals who have evolved into our partners: Justin Bandy, Ian McGonigle, Michael McKinnon and Joseph Vari. Given their importance to our organization and coincident with our new structure, we have promoted them to the role of Co-Portfolio Manager and tied their future compensation directly to the success of their respective groups. Promoting these individuals and separating into two teams will increase the responsibilities and influence of each of our leaders. We

believe these changes will continue to promote creative and entrepreneurial ambition to the benefit of our clients and shareholders in much the same way as did our launch of the Artisan Non-U.S. Value Strategy in 2002 and the Artisan Global Value Strategy in 2007.

David, Ian and Joseph now manage the Artisan Non-U.S. Value Strategy, including the Artisan International Value Fund, with support from analysts Ben Herrick and Charles Page and research associate Eileen Segall. Together this group forms the San Francisco-based Artisan Partners International Value Team. Daniel, Justin and Michael now manage the Artisan Global Value Strategy, including the Artisan Global Value Fund, with support from analysts Dain Tofson and Ashutosh Bagaria. Together this group forms the Chicago-based Artisan Partners Global Value Team. David and Dan maintain their current roles as lead portfolio managers of their respective strategies, and final decision-making authority continues to rest with David for the Non-U.S. Value strategy and Dan for the Global Value strategy.

Creating two independent investment teams increases our investment flexibility on behalf of clients and shareholders by providing each team a larger opportunity set for investment, as well as the ability to explore investment ideas absent of the need to share liquidity with the other strategy. We believe there are a number of other strategic benefits which will follow, one of which is we anticipate more efficient execution. Further, increasing the addressable market allows each strategy to more precisely target securities that fit closest with our investment theses. Speedier execution improves our ability to achieve ideal position sizes, reducing wasted research effort. Exiting positions more quickly leads to more efficient reinvestment in undervalued securities. And lastly, we expect reduced market impact both when building positions and when selling them. Simply put, we anticipate we will be able to invest more nimbly on behalf of our clients and shareholders.

As we embark on this new and exciting chapter, it is important to emphasize that the investment philosophy and process remains the same for each team. Importantly, each new team retains the core cultural tenets of intellectual honesty, hard work and a passion for value investing. These changes are the result of thoughtful deliberation on how to best serve our clients and shareholders over the long term. We take this next step in our evolution with the knowledge that each of the two teams today has more talent, experience and ambition than our initial team had at the launch of the Non-U.S. Value strategy and the Global Value strategy. We fully expect the future to be as bright from this day forward as it has been from each of those inception dates.

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 EAFE Index measures the performance of developed markets, excluding the US and Canada. MSCI All Country World ex USA Index measures the performance of developed and emerging markets, excluding the US. S&P 500® Index measures the performance of 500 US companies focused on the large-cap sector of the market. MSCI Emerging Markets Index measures the performance of emerging markets. The NASDAQ Composite Index is a broad-based capitalization-weighted index of stocks in all three NASDAQ tiers: Global Select, Global Market and Capital Market. 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 Sep 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 Sep 2018: Arch Capital Group Ltd 4.0%, ING Groep NV 3.5%, Novartis AG 3.2%, Medtronic PLC 2.8%, Telefonica Brasil SA 2.2%, NXP Semiconductors NV 1.3%, Allergan PLC 1.0%. 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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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. **Book Value** is the net asset value of a company, calculated by total assets minus intangible assets and liabilities.

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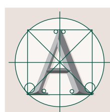
A R T I S A N  P A R T N E R S