Artisan Developing World Fund

QUARTERLY
Commentary

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

As of 30 September 2018

Portfolio Management
Lewis S. Kaufman, CFA

Dear Fellow Shareholder:

Market Backdrop

Artisan Developing World Fund (Investor Class) returned -5.66% for the quarter ended September 30, 2018, versus -1.09% for the MSCI Emerging Markets Index (all returns in USD unless stated otherwise). Since June 30, 2015, Artisan Developing World Fund has returned 15.62% cumulatively, versus 16.47% for the MSCI Emerging Markets Index. Muted market returns mask a varied and at times tumultuous emerging markets backdrop, sparked by US trade tensions with China and a challenging external environment. Chinese equities generally struggled as the Trump administration extended tariffs to $250 billion of Chinese imports and threatened levies on an additional $267 billion. Chinese equities declined 7.5% during the quarter, while the renminbi declined 3.7% as US tariffs resulted in renewed focus on China's dwindling current account surplus and the country's potential to use a weaker currency to stimulate growth. The external backdrop was also not helpful for markets relatively more dependent on foreign capital. The MSCI EM Currency Index declined 1.6% during the quarter, while the most externally vulnerable countries struggled. Argentina, while not formally an emerging market yet, declined 9.4% in dollar terms as several missteps by the central bank and government created a crisis of confidence. Turkey declined 20.5% during the quarter reflecting the corporate sector's dependence on dollar borrowings, President Erdogan's resistance to higher rates as a tool to arrest capital flight, and US sanctions on Turkey. South Africa also fell 7.4% as the country's persistent current account deficit was met with a challenge to land reforms posed by US president Trump. Not surprisingly, export-facing countries (which are not an emphasis in the Developing World Fund) fared better, with Korea and Taiwan both posting gains in absolute terms (+0.7% and +6.5%, respectively).

Contributors and Detractors

Top contributors to performance for the quarter included South American e-commerce firm MercadoLibre, Taiwan Semiconductor Manufacturing Co (TSMC), US-based coffee retailer Starbucks, Mexican bank Banco del Bajio and US-based payments provider Visa. MercadoLibre rose as optimism about the company's long-term vision in Latin American e-commerce, logistics and payments outweighed near-term gross merchandise value (GMV) weakness and continued investment. TSMC benefited from optimism about Apple's latest product cycle (Apple is a significant TSMC customer), and from the decision of a key TSMC competitor to slow efforts to develop leading-edge technology which should reinforce TSMC's competitive position. Starbucks rose as investors became more comfortable with the company's competitive position in China following poor same-store-sales performance there in recent months, while optimism increased about the company's store-expansion plans in China and delivery partnership with Alibaba. Banco del Bajio benefited from improved visibility into a favorable NAFTA resolution, the future policy direction of President-Elect Andrés Manuel López Obrador and the direction of monetary policy in Mexico which is likely to favor shallow rate cuts and stable net interest margins for the bank. Visa continues to benefit from higher discretionary spending in the US, and strength in the emerging markets as visible in the company's cross-border business.

Key detractors from performance for the quarter included Chinese educational services provider TAL Education Group, Chinese Internet firm Tencent, surveillance and security provider Hangzhou Hikvision Digital Technology, Argentine bank Grupo Financiero Galicia and Macau casino operator Galaxy Entertainment Group. TAL suffered as the Chinese government provided updated policy guidance on the education sector, which is likely to result in more restrictive standards for new teachers, course offerings and classroom utilization, and which could pressure margins and school expansion in the near term even as it benefits industry leaders longer term. Tencent similarly experienced regulatory pressures as the restructuring of the gaming regulator led to a halt in new game approvals, which has coincided with difficulties in obtaining a monetization license for one of the company's most popular Korean-licensed titles (*PlayerUnknown's Battlegrounds*) due to volatile China-Korea relations. Hikvision declined as the company seemed to be caught in the crosshairs of trade tensions, with investors calling into question the company's US revenue and input dependence, and the company's exposure to security contracts in Xinjiang which has recently been criticized by the US government for human rights violations. Galicia declined along with Argentine asset prices, despite some underlying improvements in the country's fiscal performance and external profile; political risk and the growth implications of recent emergency rate hikes will be a key focus for investors in the coming quarters. Galaxy suffered from fears over slower gross gaming revenues (GGR) as a weaker renminbi, the economic impact of trade tensions and tighter liquidity conditions for junkets could impact future demand.

Market Outlook

It seems increasingly likely that trade tensions between the US and China will persist. Perhaps the best evidence of this is not escalating US tariffs, nor China's response to them. Rather, a more transparent indication is alleged Chinese election meddling in US farm states, US outrage over international postage rates which favor Chinese shippers within the US, criticism over Chinese purchases of sanctioned Russian military equipment, and the sale of US arms to Taiwan despite fervent Chinese opposition. Perhaps these actions are simple negotiating tactics to achieve a desired outcome on trade and better intellectual property protections. More likely, they reflect a new era of strategic competition that extends beyond the economic realm. China for its part seems eager to outlast the current US administration, as visible in its relatively measured response to trade tensions so far. Instead, it has turned its energy toward improving the investment climate for foreign businesses in China, and toward fiscal and monetary stimulus. While we do not expect the large-scale fiscal stimulus we saw from China earlier this decade, China should be able to sustain a reasonable level of GDP growth (i.e., around 6%), albeit at the expense of some fiscal slippage. The implications for the renminbi are debatable. So far, China has opted to let the exchange rate depreciate modestly against the dollar, and some market participants have been vocal about the potential for a sharply lower Chinese currency. While a weaker renminbi could bolster China's export sector, China must weigh this benefit against raising the ire of the US government, which has been vocal about China's potential status as a "currency manipulator." Moreover, a weaker renminbi would likely result in domestic capital flight, creating a vicious cycle. Given that China is largely a domestically funded market with a relatively closed capital account, it may opt instead for measured depreciation and increased currency flexibility. This approach would have the added benefit of continuing China's gradual evolution toward reserve currency status. This evolution matters more than ever to the world, because the US appears to be increasingly willing to use the dollar to achieve policy goals. Thus, it is increasingly likely that the international community pursues longer term alternatives to the dollar, and China has the scale and political cohesion to fill this void.

These developments while interesting may not arrest the rise of the US dollar in the near term, or ease pressure on the external environment for emerging countries. In fact, US economic differentials have widened in recent quarters, as stimulative fiscal policy asserts itself in the US. One measure of this is a recent statistic from the *Financial Times*, which noted that American capital spending is inline for its fastest increase in 25 years. Combined with increasingly tight labor market conditions and trade policy that could stoke domestic inflation, interest rate differentials seem to continue to favor the dollar, at least relative to other developed market currencies. In particular, Europe, which has experienced a pause in the economic acceleration expected by many this year, is also unlikely to raise interest rates until Fall 2019. Emerging markets currencies often mirror growth and policy differentials between the US and Europe, so this dynamic bears watching. Emerging markets most vulnerable to these growth and policy differentials are finding themselves increasingly at the mercy of capital flows and are increasing interest rates to varying degrees. Notably, Argentina and Turkey embarked on emergency rate hikes this quarter, while Indonesia, Russia, South Africa and India all raised rates as well. Rate hikes are likely to constrain economic growth rates in these countries. US policy has created a largely unforeseen phenomenon: American asset prices continue to rise seemingly at the expense of asset prices elsewhere, which reinforces the current administration's desires to continue on its current policy path. A resolution to trade tensions with China could prove a useful elixir for the emerging world, as would US economic deceleration that stopped short of global recession.

Portfolio Positioning

Given our focus on portfolio construction that is organic in thought, the current emerging markets backdrop has had a significant adverse impact on portfolio performance. For example, the Hang Seng China Enterprises Index, which represents the vast majority of the China exposure in the MSCI EM Index actually rose during the quarter (HSCEI H Share Index +2.1%), as key constituents (largely state-owned companies) reacted positively to fiscal and monetary stimulus from the Chinese government. By contrast, US-listed Chinese companies (as measured by the Bank of New York Mellon China ADR Index) declined 8.3% during the quarter, while mainland-listed companies largely held by China-based investors declined 4.3%. Our Chinese holdings remain concentrated in US and mainland-listed shares, and experienced a decline of 13.5% during the quarter. We also observed significant divergence in the performance of domestic- and export-oriented businesses across countries. For example, Indian markets declined 2.3% during the quarter, as investors continue to grapple with the country's widening current account deficit in the face of higher oil prices, and problems in the country's non-bank financial sector. However, our analysis of the top 25 companies in the MSCI India Index suggests the average exporter in that group rose 10.4% in dollar terms this quarter, while the average domestically oriented company actually declined 9.2%. A similar analysis of the top 10 companies in Russia results in a similar conclusion, as exporters rose 14.8% while domestic companies declined 10.8%.

The upshot of these adverse developments: we are finding ample opportunity to reinforce our compounding outcome by deploying capital in down markets, often in our highest quality businesses. As a starting point, we continue to emphasize domestic demand in the emerging markets. We focus on domestic demand for a simple and intuitive reason: low penetration businesses should be more conducive to business value compounding over time, provided that they have the capital structures and business models to realize their domestic demand potential. Indeed, it is worth noting that global exports are growing at just 5%, while trade tensions and protectionism are only building. Thus, while EM-based export businesses that benefit from a strong dollar continue to outperform domestic ones that suffer from higher input prices and weaker domestic purchasing power, this can be viewed as a largely cyclical phenomenon. Moreover, the vast majority of businesses that constitute the Developing World Fund are largely resilient to these cyclical forces and are generally compounding business value at mostly unchanged rates through this period. While decelerating Chinese growth and long-term dollar strength do pose some risks to these assumptions, we remain focused on capitalizing on the divergence in EM prices while adhering to a core set of investment principles: domestic demand rather than domicile, a desire to limit capital impairment, business models as value drivers, a repeatable currency framework, and the importance of multinationals in delivering an emerging markets outcome.

We thank you for your trust and confidence.

Investment Process

We seek to capitalize on low-penetration opportunities 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 30 September 2018	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception[1]
Investor Class: ARTYX	**-5.66**	**-12.39**	**-9.99**	**11.43**	—	—	**4.69**
Advisor Class: APDYX	**-5.64**	**-12.28**	**-9.87**	**11.66**	—	—	**4.88**
Institutional Class: APHYX	**-5.63**	**-12.27**	**-9.80**	**11.77**	—	—	**4.98**
MSCI Emerging Markets Index	-1.09	-7.68	-0.81	12.36	—	—	5.23

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
Semi-Annual Report 31 Mar 2018[1]	1.34	1.16	1.08
Prospectus 30 Sep 2017[2]	1.40	1.21	1.12

[1]Unaudited, annualized for the six-month period. [2]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.

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. 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. MSCI Emerging Markets Currency Index tracks the performance of 25 emerging market currencies relative to the US dollar. Bank of New York Mellon China ADR Index measures the performance of all depository receipts from China and Hong Kong listed on the New York Stock Exchange and NASDAQ. Hong Kong Stock Exchange Hang Seng China Enterprises Index measures the performance of securities available for investment by Chinese nationals listed on the Hong Kong Exchange. MSCI India Index measures the performance of Indian companies. Emerging markets returns and country-specific index returns are in USD unless otherwise stated. All country returns are based on MSCI country indices. The index(es) are unmanaged; include net reinvested dividends; do not reflect fees or expenses; and are not available for direct investment.

The Global Industry Classification Standard (GICS®) is the exclusive intellectual property of MSCI Inc. (MSCI) and Standard & Poor's Financial Services, LLC (S&P). Neither MSCI, S&P, their affiliates, nor any of their third party providers ("GICS Parties") makes any representations or warranties, express or implied, with respect to GICS or the results to be obtained by the use thereof, and expressly disclaim all warranties, including warranties of accuracy, completeness, merchantability and fitness for a particular purpose. The GICS Parties shall not have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of such damages.

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. The holdings mentioned above comprised the following percentages of the Fund's total net assets as of 30 Sep 2018: MercadoLibre Inc 3.3%, Starbucks Corp 1.9%, Banco del Bajio SA 1.0%, Visa Inc 2.0%, TAL Education Group 3.3%, Tencent Holdings Ltd 4.6%, Hangzhou Hikvision Digital Technology Co Ltd 3.1%, Grupo Financiero Galicia SA 0.6%, Galaxy Entertainment Group Ltd 3.0%. 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.

MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used to create indices or financial products. This report is not approved or produced by MSCI. 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.

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.

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