Artisan Global Value Fund

QUARTERLY Commentary

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

As of 31 March 2019

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)

Justin V. Bandy, CFA
Co-Portfolio Manager

Michael J. McKinnon, CFA
Co-Portfolio Manager

Investment Results (%)

			Average Annual Total Returns				
As of 31 March 2019	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception
Investor Class: ARTGX	**11.33**	**11.33**	**-1.25**	**8.50**	**5.35**	**13.90**	**7.21**
Advisor Class: APDGX	**11.37**	**11.37**	**-1.10**	**8.64**	**5.46**	**13.96**	**7.26**
Institutional Class: APHGX	**11.40**	**11.40**	**-0.94**	**8.76**	**5.61**	**14.08**	**7.36**
MSCI All Country World Index	12.18	12.18	2.60	10.67	6.45	11.98	3.96

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
Annual Report 30 Sep 2018[1,2]	1.25	1.10	1.01
Prospectus 30 Sep 2018[2]	1.28	1.13	1.04

[1]Excludes Acquired Fund Fees & Expenses as described in the prospectus. [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.

Market Overview

Frexit (noun)

Etymology: Circa 2019, portmanteau of *forever* and *Brexit*.
Definition: The act of leaving by going nowhere; also, a period of national existential crisis.

Those who have been paying attention—and even some who have tried hard not to—will know that the UK still has not left the European Union despite its 2016 referendum. The March 31, 2019, divorce deadline has come and gone, and extensions are being sought and, so far, granted. Speeches and motions abound in Parliament, though members can only agree that 1) the UK must exit the EU, but 2) it must exit on acceptable terms.

With classic British understatement, we note that such terms are proving difficult to find. As we write, an extension of up to a year or more looks likely. Were Samuel Beckett alive, we are certain he could write a rousing sequel to his classic *Waiting for Godot*. (We reference an Irish playwright with intentional irony, as the question of the Irish border has been among the most contentious of Brexit details.)

We hereby submit the term *frexit* to the Oxford English Dictionary for inclusion in the current edition. Or even in the next edition; we do not believe time is of the essence.

It's tempting here in the former colonies to be a bit smug about frexit, i.e., "At least we don't have THAT problem." But alas, while the UK's symptoms are different, the developing world in aggregate is largely suffering from the same disease: We just can't seem to move into a better future. Economies are stuck in low gear, unable to accelerate out from under the long shadows of the financial crisis, demographic trends, the IT revolution, excessive debt and the like. Europe's economy has barely grown over the past 10 years, drawing comparisons to Japan's multi-decade malaise. Middle-class wage gains in the US are just now gaining traction after decades of inflation-adjusted stagnation.

Policy makers are stuck, too. The European Central Bank just waved off any hope of interest-rate normalization or an end to quantitative easing. The floundering European economy just can't handle the strain of positive interest rates. German 10-year bond yields, which were yielding what now seems like a generous 25bps at 2018's end, are now back in negative territory. And here in the US after an apparent slowdown in economic growth, President Trump started calling for the Fed to not only stop raising interest rates, but to start cutting them and resume asset purchases. The recovery that never really was now seems like the stimulus that always will be.

In this context, it seems like only asset prices ever show any gumption. They moved ahead this quarter—and briskly. As corporations reported results during the quarter, it was clear that global economic growth, though modest, isn't falling off a cliff. That, in combination with lower valuations, helped stocks to recover significant ground after the fourth-quarter stutter. The S&P 500® Index gained 13.6% (total return)—the best US quarterly stock market gain since Q3 2009—and most developed world markets similarly rose in the double digits. Most commodities also rose, with oil up nearly 30% to about $68 a barrel. The euro gained modestly against the US dollar, while pound sterling was down slightly.

Portfolio Discussion

Our top contributors during Q1 were Dentsply Sirona, Facebook and Oracle.

Dentsply Sirona is a relatively new holding, acquired in Q3 2018. It is the world's leading manufacturer of dental supplies and equipment. The dental industry is an attractive one due to its steady, demographics-driven growth and profitable industry structure.

Dentsply ran into trouble after its 2016 merger with Sirona, which created the current company. Revenue growth subsequently stalled, profitability fell and multiple changes in management followed. These problems allowed us to purchase the shares at a cheaper price relative to earnings power under more normalized conditions. The most recent earnings release suggests the company is on its way to restoring that earnings power, and the stock gained 34% as a result.

Facebook is also a recent purchase. We were able to buy this business at an attractive price for a couple of reasons. First, Facebook has had to make significant investments in monitoring and removing controversial and/or dangerous content from its network. These investments have eaten into profitability. Also, questions of whether Facebook and other Internet giants should be regulated—and what form that regulation might take—have taken a toll on investor sentiment. The most recent quarterly results show the company continues to be very healthy and rapidly growing despite these challenges. The stock rose 27%.

Oracle's share price rose 19% in Q1. The company reported modest revenue growth in combination with margin expansion. Margins have been under pressure for several years as the company has invested heavily in its cloud-based offerings. The pressure from those investments is easing, and the payoffs are coming into focus. The company is also more optimistic about revenue growth accelerating in the years to come.

Almost all our stocks rose during the quarter, and there were no particularly meaningful detractors from performance.

UBS declined about 3% during the quarter, missing out entirely on the broad-based rally. The company was found guilty of facilitating tax evasion for clients in France and was fined roughly one year's worth of earnings. UBS is appealing this ruling in France, which is likely to take years. We added to our position on recent weakness as the valuation of approximately 8X earnings strikes us as excessively pessimistic.

Bankia declined about 12% but is a small position. The stock fell largely because its earnings are highly leveraged to interest rates, and interest rates in Europe fell during Q1. The stock appears extremely cheap to us at 10X earnings and 60% of tangible book.

Qualcomm was a negative contributor and also a small position which we exited during the quarter. We have written about this company several times over the past few years. The decline in the stock market in Q4 and into Q1 gave us plenty of opportunities to redeploy our small holding in Qualcomm into other, higher-quality names—primarily FedEx.

We also sold our shares in GlaxoSmithKline during Q1. This is a fairly recent purchase and a successful one. Recall that our thesis was based on three attractive and growing businesses (vaccines, consumer and HIV) attached to a stagnant one (pharmaceuticals) which dragged down the overall valuation. At the time of our purchase, fair value assumptions for the three left the fourth dramatically undervalued. That being said, the pharmaceutical business needs significant reinvestment in order to replenish a bare pipeline. The company's balance sheet is fully utilized, leaving significant cost-cutting opportunities and free cash flow as the sources of reinvestment funding. In the latter case, current management is boxed in by a dividend which has consistently exceeded the company's free cash flow. This is a notable peculiarity of corporations in the UK: There is an irrational, almost messianic devotion to the dividend which supersedes any rational economic framework. Companies in the UK will go bust before they cut the dividend.

However, we believed that with a recent CEO change and the pharmaceutical business badly in need of reinvestment, the board would come to its senses and cut the dividend. It is obvious that reinvesting in the business in order to give it duration is a better alternative than borrowing to pay a dividend the company can't afford. Alas, *rational* and *dividend* are two words rarely spoken together in the board rooms of UK plc. The dividend remains, and the company further levered the balance sheet with acquisitions to fill the pipeline. The acquired entities may result in future new products, but they may not. And with the balance sheet even more levered and the dividend still exceeding free cash flow, the company has painted itself into a corner. We sold our shares at a gain and moved on.

We acquired one new holding during the quarter, BAE Systems—one of the largest global defense companies. The firm has a diverse set of products and services across the military and security domains of air, land, naval and cyber. Although the company is headquartered in the UK, the US is the firm's largest market by far. In the US, BAE is exposed to a robust defense budget outlook, and the company has a number of growing businesses stemming from large contract wins in military aircraft and land vehicles. The company also has a dominant position in the UK, where it is often the sole provider of critical matériel for Her Majesty's Armed Forces. BAE also has attractive businesses in the Middle East and Australia. We view BAE as good business given its stable margin profile, long-term contracts, deep customer relationships and decent revenue growth potential. Management is commercially minded, the balance sheet is strong and the valuation is attractive at just 12X earnings.

We were able to acquire a position at a favorable entry point at the beginning of the year. Shares had declined sharply in the previous few months in part because of concerns regarding the sustainability of the company's business in Saudi Arabia. Here, BAE primarily exports and services aircraft for the Saudi air force. We concede that a negative reaction across the Western world to recent unpalatable actions by the Saudi regime could make the export of new aircraft to the country difficult. However, the bulk of BAE's business in Saudi Arabia relates to servicing the existing aircraft fleet, and we believe this business should be less impacted by the current political climate. Moreover, the entire Saudi business represents only ~12% of the company's earnings, and even were it to go away entirely, shares would still be undervalued.

Value Rorschach

Value investing is out of favor. That may be a gross understatement. Growth has outperformed value in 8 of the past 10 years—2011 was a dead heat, and value bested growth in 2016 only to trail by a relative 14% over the next 2 years. According to some measures, growth stocks trade at a nearly 50% premium to their value counterparts. That should be cause for some optimism from the value crowd as such extreme disparities tend to sow the seeds of their own undoing. That said, we saw growth premiums stretch as high as 100% during the dot-com era.

We must admit that we don't spend much time worrying about this. We focus on the economics, not the machinations of the market per se or which way the winds of popularity blow. Economics endure and ultimately prevail.

So in this market of massive growth premiums, what is for sale in the value bin? Two industries stand out as "cheap" in today's market: automotive and semiconductor, both full of companies trading at 10-ish times earnings or less, and both operating in cyclical industries. We have committed significant capital to the latter but almost none to the former: Samsung Electronics, the world's largest memory semiconductor manufacturer, is our largest holding; and NXP, the world's largest analog semiconductor company, is also a top-10 holding. Why one industry but not the other?

Comparing Samsung against its leading counterpart in the automotive industries is an interesting exercise in *not all PEs are created equal*.

Exhibit 1: Not All PEs Are Created Equal

	Equity Value	Debt	Cash	EV	EV/EBITDA	EV/EBIT	PE	FCF	ROE
Samsung Electronics[1]	281,473	—	(95,680)	185,793	4.5X	3.9X	9.2X	37,470	21%
Toyota Motor[2]	21,781	19,348	(13,720)				8.4X	882	13%

	Industry Structure	End-Demand Growth	Credit Dependency	IT Disruption	Elasticity
Samsung Electronics	Three players	High	Modest	Beneficiary	High
Toyota Motor	Too many to count	Zero real	Very high	Victim	Low

Source: Team estimates, as of 31 March 2019. [1]Korean Won. [2]Japanese Yen.

Cyclicality explains why they're both cheap, as the market often fixates on what is right around the corner rather than what is farther up the road. But the similarities end there. Samsung has more than a quarter of its market cap in net cash. Toyota, like most auto OEMs, has a balance sheet that is impossible to really disentangle and an enterprise value that involves a lot of judgments. It has no net debt at the manufacturing business but massive debts at the financing subsidiary. It's effectively a bank with a manufacturing business attached. This is true of most auto OEMs.

We note what we consider the main differences and similarities in Exhibit 1. We won't go through them all, but we can summarize. Samsung is the leader in an oligopolistic market that should grow strongly as the need for memory and computing power burrows deeper and deeper into the fabric of our economy. Toyota is the leader in an industry plagued by chronic overcapacity, with little-to-no real long-term growth and facing significant challenges due to electrification and autonomous driving. We don't mean to pick on Toyota: It's a well-run company, and one of the best auto manufacturers in the world. It's just in a very difficult industry.

The question of which one you would rather own is, at this point, a rhetorical one. As always, we are open to persuasion. But the comparison serves a further purpose—one that brings us back to our opening observation about growth and value. Sometimes the comparison of growth versus value is a false one. A cheap price may or may not prove to be a fundamentally undervalued one. Often the difference between the two is the ability to grow over the long term. And often, when the market is overpaying for the certainty of near-term growth, dramatic value can emerge for those willing to look ahead. We believe that to be the case today.

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 ex USA Index measures the performance of developed and emerging markets, excluding the US. 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. 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 2019. 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 31 Mar 2019: DENTSPLY SIRONA Inc 3.5%, Facebook Inc 3.3%, Oracle Corp 3.1%, UBS Group AG 2.9%, FedEx Corp 2.4%, Bankia SA 0.8%, BAE Systems PLC 1.7%, Samsung Electronics Co Ltd 4.6%, NXP Semiconductors NV 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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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. **Return on Equity (ROE)** is a profitability ratio that measures the amount of net income returned as a percentage of shareholders' equity. **Enterprise Value (EV)** is a measure of a company's value. **Enterprise Value to Earnings Before Interest, Taxes, Depreciation and Amortization (EV/EBITDA)** is a measure of the intrinsic value of a business. EV is calculated as the market capitalization of the company plus its long-term debt. EBITDA is an approximate measure of a company's operating cash flow based on data from the company's income statement. It is calculated by looking at earnings before the deduction of interest expenses, taxes, depreciation, and amortization. **Enterprise Value to Earnings Before Interest and Taxes (EV/EBIT)** is a valuation multiple defined as an enterprise value (EV) divided by earnings before interest and tax (EBIT).

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