



Artisan International Small-Mid Fund

QUARTERLY
Commentary

Investor Class: ARTJX | Advisor Class: APDJX | Institutional Class: APHJX

As of 30 June 2019

Investment Process

We seek long-term investments in high-quality businesses exposed to structural growth themes that can be acquired at sensible valuations in a contrarian fashion and are led by excellent management teams.

Investing with Tailwinds

We identify structural themes at the intersection of growth and change with the objective of investing in companies having meaningful exposure to these trends. Themes can be identified from both bottom-up and top-down perspectives.

High-Quality Businesses

We seek future leaders with attractive growth characteristics that we can own for the long term. Our fundamental analysis focuses on those companies exhibiting unique and defensible business models, high barriers to entry, proven management teams, favorable positions within their industry value chains and high or improving returns on capital. In short, we look to invest in small companies that have potential to become large.

A Contrarian Approach to Valuation

We seek to invest in high-quality businesses in a contrarian fashion. Mismatches between stock price and long-term business value are created by market dislocations, temporary slowdowns in individual businesses or misperceptions in the investment community. We also examine business transformation brought about by management change or restructuring.

Manage Unique Risks of International Small- and Mid-Cap Equities

International small- and mid-cap equities are exposed to unique investment risks that require managing. We define risk as permanent loss of capital, not share price volatility. We manage this risk by having a long-term ownership focus, understanding the direct and indirect security risks for each business, constructing the portfolio on a well-diversified basis and sizing positions according to individual risk characteristics.

Team Overview

Our team is intellectually curious about the world and how it is changing. Each team member is passionate about small company investing and discovering businesses with meaningful and open-ended growth opportunities.

Portfolio Management



Rezo Kanovich
Portfolio Manager

Investment Results (%)

As of 30 June 2019	Average Annual Total Returns						
	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception
Investor Class: ARTJX	6.92	23.12	2.65	9.20	2.64	9.64	11.22
Advisor Class: APDJX	7.00	23.32	2.72	9.23	2.65	9.65	11.23
Institutional Class: APHJX	7.01	23.35	2.87	9.42	2.77	9.71	11.26
MSCI All Country World ex USA SMID Index	2.14	12.61	-3.81	8.15	2.80	7.93	8.78
MSCI All Country World ex USA Small Cap Index	1.21	11.60	-5.94	7.76	2.77	8.48	9.48

Source: Artisan Partners/MSCI. Returns for periods less than one year are not annualized. Class inception: Investor (21 December 2001); Advisor (4 December 2018); Institutional (12 April 2016). 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	ARTJX	APDJX	APHJX
Semi-Annual Report 31 Mar 2019	1.43 ¹	1.26 ²	1.20 ¹
Prospectus 30 Sep 2018 ³	1.36 ⁴	1.27 ⁵	1.15 ⁴

¹Unaudited, annualized for the six-month period. ²Unaudited, for the period from commencement of operations 4 Dec 2018 through 31 Mar 2019. ³See prospectus for further details. ⁴Restated to reflect a reduction in management fees, effective 1 Dec 2018. ⁵Includes estimated expenses for the current fiscal year.

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.



Investing Environment

Global equities finished higher in Q2 as expectations for accommodative monetary policy and hopes for a long-term resolution to the protracted trade war between the US and China mitigated concerns about slowing global growth and reduced earnings estimates. The MSCI AC World ex USA SMID Index finished up 2.1%. On a regional basis, developed markets outperformed emerging markets as the latter were held back by weakness in China. By sector, returns were led by technology and industrials. Laggards were energy, consumer discretionary and consumer staples.

The macro backdrop is something we're aware of, particularly since it may provide us opportunities to invest at more attractive prices, but short-term market fluctuations are not a focus of our process. Instead, we spend our time looking for structural growth themes that will serve as tailwinds for our portfolio companies for many years to come. Accordingly, when we invest, we think about the opportunity over an investment horizon of five or more years. We seek a shareholder base that values our approach and aligns with our long-term orientation.

Rather than focus on broad market volatility we continue to consistently apply our exclusionary approach. We look to identify a small subset of companies offering exposure to structural growth and possessing the requisite business quality characteristics. High-quality businesses, as we define them, are those with defensible business models, favorable positions in their industry value chains and strong management teams. We look for companies with meaningful competitive advantages such as technological leadership, intellectual property, strong brands or industries favoring natural monopolies. In short, we look for small companies with the ability to become meaningfully larger, and we look to acquire these businesses in a contrarian fashion in times of adversity by opportunistically taking advantage of price dislocations.

Finally, our universe allows us to create a diverse collection of themes and stocks. The success of these companies is much more a function of idiosyncratic factors, such as managements and technologies, rather than the cyclical market backdrop.

Performance Discussion

Our portfolio outpaced the MSCI ACWI ex USA SMID Index in Q2, adding to its sizable YTD performance advantage. Outperformance within our highly diversified portfolio was broad-based as several portfolio holdings across our varied structural growth themes contributed significantly to our quarterly return. In an environment of sluggish economic growth in many parts of the world, we're finding many interesting idiosyncratic ideas that are not macro-driven as we endeavor to manage a portfolio of low-correlated investments.

SolarEdge Technologies, Beijer Ref and Belimo were among our top individual performers; however, about two thirds of our portfolio holdings produced positive returns, with ~55 stocks generating double-digit gains. SolarEdge Technologies is an Israel-based producer of power conditioning equipment for solar photovoltaic

systems. The company makes semiconductor-based devices called inverters that are used to efficiently convert solar power—which can be volatile given cloud cover and shading—into an AC signal that is consumable by a power grid or storable in a battery. Following a period of underperformance driven by temporary component shortages and increased costs to implement rapid changes to the supply chain to account for trade policy uncertainty, shares rallied after the company demonstrated a recovery in margins and continued strong top-line growth. Our attraction to the company is focused on the high value-added position that its technology occupies within the solar power value chain, as well as its strong intellectual property. The company's technological leadership has led to rapid gains in market share in the residential solar market, and there remains significant opportunity in the commercial market. We are interested in alternative energy—and solar specifically—because the cost of solar, which is already on par with coal, continues to come down. We also expect that due to the company's expertise in power optimization, which is relevant in other fields (e.g., utility-scale solar, charging stations for electric vehicles, power storage applications), it can develop into a broader electrical engineering company.

Sweden-based Beijer Ref is one of the largest suppliers of HVAC and refrigeration solutions in Europe. The company has a number of characteristics that contribute to its attractiveness as an investment. First, it operates in a growth industry due to the push from changing regulation for environmental-friendly refrigerants, which Beijer Ref manufactures. In addition to the business's growth profile, we like several characteristics that we believe should contribute to long-term profits growth. First, the company is a high value-added distributor due to the technical expertise and support it provides as part of its consultative sales approach. For example, Beijer Ref helps its commercial and industrial customers determine what kind of refrigeration systems they should deploy. Second, Beijer Ref has a growing private-label manufacturing business across the refrigeration value chain featuring higher-margin environmentally friendly technology. Third, the company is expanding its presence geographically into Africa and the Asia-Pacific region.

Belimo is a Swiss engineering company that is a leading producer of actuators, control valves and sensors for HVAC, fire and safety systems. The company primarily supplies the non-residential market (~95% of company sales) consisting of commercial, governmental and industrial buildings. The company is known as an industry-leading innovator in the areas of smart buildings, including remote monitoring, temperature control, power efficiency and data monitoring to optimally run building systems. Our interest in the company stems from its technological leadership, strong brand and pricing power. This company also has the high-value bottleneck characteristic that we have discussed previously. Belimo benefits from pricing power because its products comprise a relatively small but critical part of building automation systems. Recent top-line growth has been better than underlying economic growth due in part to growth initiatives and product innovation, while free cash flow

generation has been strong despite investments in R&D and rising input costs.

Among our biggest QTD detractors were health care holdings Teva Pharmaceutical Industries, Intersect ENT and LivaNova. Teva shares came under pressure due to a two-pronged legal battle, including concerns about liability surrounding the opioid epidemic and allegations of drug-pricing collusion between Teva and other generic manufacturers. These issues have been in the headlines on and off the past few years, so we were aware they could resurface. While Teva has been investigated for price fixing by the DOJ since 2016, according to the company, it has not been contacted by the DOJ since these latest reports. This is an issue we are monitoring, but in our view, the more important legal controversy is the one related to the opioid epidemic. Teva and other health care companies, including distributors, have been sued by states under the nuisance law, alleging the companies contributed to the opioid epidemic in the US. Teva recently reached a settlement with the state of Oklahoma, and the market is extrapolating this settlement to the rest of the country. While these legal matters are ongoing, our investment case remains centered on a turnaround in Teva's business, a consolidation of its operating infrastructure and the emergence of a promising pipeline of assets in development. We, of course, continue to monitor the company's legal strategy, including via direct dialogue with Teva's leadership.

Intersect produces medical devices for the ear, nose and throat (ENT) market. The stock traded off on news that its CEO was stepping down to take a new position with Abbott Laboratories, creating a leadership vacuum in the interim. The announcement doesn't affect our fundamental views of the company. Intersect has a proven treatment for chronic sinusitis—a large market consisting of tens of millions of sufferers—called Sinuva™ that we believe has significant growth potential. Similar to stents, Sinuva™ is a self-expanding, bioabsorbable, drug-eluting implant that is well accepted in surgery. The treatment is gradually gaining acceptance, but we believe the company will require expanded insurance reimbursement for this sizable market to truly open.

LivaNova is a global medical technology company that produces devices for cardiac surgery, neuromodulation and cardiac rhythm management. Organic growth in neuromodulation—its biggest and most profitable segment—slowed due to competitive dynamics and sales force turnover. Epidiolex®, a new epilepsy drug sold by a competitor, likely contributed to weak sales of VNS (vagus nerve stimulation) implants used to prevent seizures. We don't believe Epidiolex® is an enduring threat, given the drug is not a cure for epilepsy, and VNS is typically used in combination with drug therapy.

Outlook and Positioning

We are pleased with our strong performance results for the Q2 and YTD periods and continue to be excited about the medium-term prospects of our portfolio companies. We are also not resting on our laurels. We continue to be active in our efforts to find high-quality small and mid-sized growth companies we can own for the long term.

We are traveling the world to find these ideas and are excited about the opportunities we have found. These trips have resulted in several additions to the portfolio that we are very excited about, including a UK video game company, a very interesting vaccines company in France, a specialty pharmaceuticals company focused on allergy vaccines based in Denmark, and an Australian telecommunications network provider focused on data center connectivity to name a few. We are building our positions in these companies gradually as we grow our knowledge base and look forward to reporting on them when their positions are more fully built.

Two of our biggest new purchases in Q2 were DSV and Petrobras Distribuidora. DSV is a leader in the freight-forwarding industry. We've gotten to know DSV from our investment in industry rival Panalpina. Panalpina is a stock we have owned in our logistics theme due to our long-standing interest in the freight-forwarding industry. We sold Panalpina after DSV agreed to acquire it during the quarter. The deal makes DSV the third-largest freight forwarder in the world. Although Panalpina was taken out at a large premium, we are excited by the acquisition, as a large portion of the deal consists of stock—thereby allowing Panalpina shareholders to participate in the upside of the investment case. We also think the transaction is a win-win for both companies. DSV has proven itself an acute consolidator in the space, having made several large acquisitions over the past decade in which it successfully extracted material revenue and cost synergies. Panalpina, on the other hand, has struggled to implement modern IT systems needed for today's on-demand supply chains. As a result, we believe there is potential for DSV to improve Panalpina's IT in addition to cutting costs, using scale to increase its pricing power and expanding its set of logistics services offerings and geographic reach.

Our purchase of Petrobras Distribuidora was the product of our last trip to Brazil. Our recent work there has been focused on the themes of digital payments and privatization. Our purchase of Petrobras Distribuidora relates to the latter. Brazil is beginning a wave of privatization of state-owned assets as it steers its economy toward a more market friendly stance and tries to reduce its budget deficit. During our recent trip there, we met several state-owned companies looking to privatize—including Petrobras Distribuidora, which is one of the largest chains of gas stations in the country. The company's profitability metrics have been subpar relative to competitors. Our investment case is that as a private company, it will have the independence to rationalize its cost structure and improve its corporate governance. We believe there is meaningful potential for increased profitability as corporate governance improves, regardless of whether there is an upturn in Brazil's economy—though an economic upturn would certainly add to its growth rate. Lastly, the company is investing in the renovation of the convenience stores at its gas stations, which has the potential to further drive growth and foot traffic.

We also meaningfully added to our existing position in Almirall, a Spanish pharmaceuticals company. Historically, Almirall was a sleepy,

family-owned business that lacked focus due to its multiple businesses, including a domestic business with a dominant sales force that was very stable but relatively low margin; a respiratory drug division that was sold to AstraZeneca in 2014; and a dermatology business. In the last few years, new management with a big pharma background has come in and made substantial changes. We are frequent investors in new management situations, as we've found they can be important catalysts for change. Since taking the helm Almirall's new management has rationalized the portfolio, divested the respiratory business and sold peripheral products in the dermatology portfolio that were diverting management's attention. Now the group is highly focused on the Spanish market and is a leading player in the global dermatology and aesthetics space. This is, in our view, a highly stable position from which to operate. We also like the company's robust pipeline of new drugs—including for psoriasis, actinic keratosis, acne and atopic dermatitis—and believe these products are underappreciated and have considerable growth potential.

Besides Panalpina, we also sold Israeli chip designer Mellanox Technologies after the announcement it would be acquired by Nvidia, a US semiconductor company. Other sales included Danish pharmaceuticals companies Ascendis Pharma and H. Lundbeck. We sold Ascendis Pharma because the stock price already reflected a positive outcome for an upcoming drug trial. Given the binary nature of the trial, its valuation no longer provided us a favorable risk-reward. H. Lundbeck is a company we've known and invested in for a long time. However, the recently installed management team's strategy is focused on purchasing pipeline products rather than internal R&D. Our historical interest in the company was oriented toward its R&D prowess, so we are less interested in this pivot toward an acquisition strategy. Lastly, we exited our position in Wartsila, a Finnish manufacturer of equipment for the marine and power generation markets, in favor of better opportunities with greater upside.

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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 ex USA SMD Index measures the performance of small- and mid-cap companies in developed and emerging markets excluding the US. MSCI All Country World ex USA Small Cap Index measures the performance of small-cap companies in developed markets and emerging markets excluding the US. 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 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. The holdings mentioned above comprised the following percentages of the Fund's total net assets as of 30 Jun 2019: SolarEdge Technologies Inc 1.4%; Beijer Ref AB 1.1%; Belimo Holding AG 1.5%; Teva Pharmaceutical Industries Ltd 0.6%; Intersect ENT Inc 0.5%; LivaNova PLC 0.6%; DSV A/S 0.8%; Petrobras Distribuidora SA 0.4%; Almirall SA 1.4%. 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.

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