



Artisan Sustainable Emerging Markets Fund

QUARTERLY
Commentary

Investor Class: ARTZX | Institutional Class: APHEX

As of 30 June 2019

Investment Process

We seek to invest in companies that are uniquely positioned to benefit from the growth potential in emerging markets and that possess a sustainable global competitive advantage.

Sustainable Earnings

We believe over the long term a stock's price is directly related to the company's ability to deliver sustainable earnings. We determine a company's sustainable earnings based upon financial and strategic analyses. Our financial analysis of a company's balance sheet, income statement and statement of cash flows focuses on identifying historical drivers of return on equity. Our strategic analysis examines a company's competitive advantages and financial strength to assess sustainability.

Risk Analysis

We believe a disciplined risk framework allows greater focus on fundamental stock selection. We incorporate our assessment of company-specific, sustainability and macroeconomic risks into our valuation analysis to develop a risk-adjusted target price. Our risk-rating assessment includes a review of quantitative and qualitative ESG factors and country-appropriate macroeconomic risk factors to which a company is exposed.

Valuation

We believe that investment opportunities develop when businesses with sustainable earnings are undervalued relative to peers and historical industry, country and regional valuations. We value a business and develop a price target for a company based on our assessment of the business's sustainable earnings and risk analysis.

Team Overview

Team experience, continuity and a rigorous investment process are the characteristics that we believe differentiate our team from other emerging markets investment managers. Research analysts have autonomy and ownership of their regions and accountability for the success of their ideas. Our team members bring deep experience and uncommon insight to their respective areas of responsibility.

Portfolio Management



Maria Negrete-Gruson, CFA
Portfolio Manager

Investment Results (%)

As of 30 June 2019	Average Annual Total Returns							
	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception ¹	Inception ²
Investor Class: ARTZX	1.03	11.97	2.34	11.34	4.37	4.86	-0.14	—
Institutional Class: APHEX	1.03	12.03	2.45	11.41	4.43	5.03	—	4.74
MSCI Emerging Markets Index	0.61	10.58	1.21	10.66	2.49	5.81	1.20	5.67

Source: Artisan Partners/MSCI. Returns for periods less than one year are not annualized. ¹Investor Class inception: 2 June 2008. ²Institutional Class inception: 26 June 2006.

Expense Ratios (% Gross/Net)	ARTZX	APHEX
Semi-Annual Report 31 Mar 2019 ^{1,2,3}	1.87/1.35	2.39/1.20
Prospectus 30 Sep 2018 ^{1,3}	1.78/1.35	2.00/1.20

¹Net expenses reflect a contractual expense limitation agreement in effect through 31 Jan 2020. ²Unaudited, annualized for the six-month period. ³See 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.



Portfolio Discussion

Our portfolio outperformed the MSCI Emerging Markets Index in Q2. From a country perspective, Argentina was our top relative contributor. Our Greece, Russia and Brazil exposures were also nicely additive on a relative basis, while our holdings in China were significant detractors despite our below-benchmark exposure.

At the individual holdings level, among our top Q2 relative contributors were Sberbank, Arco Platform and Sunny Friend Environmental Technology.

Sberbank, Russia's largest bank and one of the largest positions in our portfolio, participated in Russia's Q2 equity market rally. A handful of tailwinds contributed to the rally—including a growing belief among investors that the US is unlikely to impose additional sanctions on Russia, attractive valuations, the relatively high and rising dividend yield on Russian companies, corporate governance improvements in state-owned companies, stronger oil prices, slower inflation and the prospect of interest rate cuts by Russia's central bank. Specific to Sberbank, lower interest rates and improving home affordability are positive trends for mortgage loan growth. We remain attracted to the company's ability to apply superior IT to its credit analysis, as well as its innovation platform and strong capital base.

It is worth expanding on our view of Russia in terms of sustainability, which has been a focus for our team since its inception more than 20 years ago. Russia has been the portfolio's single largest country overweight for three years, and we believe investors may be overlooking broadly positive trends in corporate governance and financial and social sustainability. Russian equities overall are trading at a high spread between the cost of debt and the cost of equity. The cost of debt has been declining due to lower interest rates and slowing inflation, while the cost of equity remains elevated. Those factors, along with a general improvement in corporate governance, have led companies to reduce capital expenditure plans for projects that do not meet the cost of capital threshold. As a result, we have observed a build-up in free cash flows in the past three years and a corresponding trend toward reduced debt and increased focus on returning capital to shareholders. In addition, we have observed a trend among Russian companies toward increasing engagement and investments in local communities and becoming more socially responsible. For example, one mining company is investing \$2 billion to upgrade and remediate Soviet-era pollution from its mining activities. Along with inexpensive valuations, we view these improvements as further proof of progress in the quality and priorities of corporate management, lending support to our substantial overweight.

On an individual company basis, sustainability arguably starts with the business model itself. We seek to avoid companies that are not structured to run sustainably over the long term. Rather, we are committed to allocating capital to companies with business models that can achieve relatively high returns on capital on a sustainable basis. We like businesses that are committed to progressing toward

their full potential while engaging with the markets and populations that helped them grow. We also believe it is critical to consider sustainability in terms of change through time—companies showing signs of successfully adopting and growing sustainable practices. In our view, Russia has been moving in the right direction, and its achievements have been underappreciated by financial markets.

Arco Platform is a Brazilian small-cap developer and distributor of private-school, K-12 educational curriculum software that is superior to traditional textbooks. The company also offers customer relationship management capabilities to private schools. The number of students in Brazil's K-12 private schools is not growing, as fewer families are able to pay for private education due to weak economic conditions, but Arco is benefiting from its first-mover advantage and its focus on growing market share. In line with its strategic focus, Arco announced plans in May to acquire a Brazilian educational content provider, which will expand its customer base and complement its current product offerings. We believe the acquisition will be a strong strategic fit that will further enhance Arco's position within the industry. While economic conditions in Brazil have remained challenging, we expect it will be able to deliver sustainable growth as Arco's business is not leveraged to the country's economic cycle. We reduced our position during the period on the back of share-price strength.

Sunny Friend Environmental Technology is a leading provider of medical and hazardous industrial waste treatment services in Taiwan and Beijing. Demand has been rising as Taiwan and China have increased their industrial waste-disposal enforcement. In addition, already high industry barriers are increasing as environmental standards are rising—creating a more challenging environment for smaller operators who lack the scale to price competitively. In May, Sunny Friend successfully began operations at its new Zhangbin Ph2 plant and remained focused on its plan to complete construction on several additional plants between the second half of 2019 and the end of 2021. Sunny Friend also received funds from the Beijing municipal government related to the costs of switching the location of its second plant in the city, which is now under construction. Sunny Friend's capacity expansion should drive sustainable revenue and earnings growth in the period ahead.

Among our bottom relative contributors in Q2 were Medy-Tox, Noah Holdings and Sinopharm. Medy-Tox is a Korea-based biopharmaceutical company that manufactures botulinum toxins (similar to Allergan's Botox) and HA fillers, both of which are used in facial noninvasive rejuvenation treatment. Korea's botulinum toxin manufacturers have been negatively impacted by misconduct allegations against both Medy-Tox and its major competitor. We acknowledge the risks in this developing industry, but we remain attracted to the potential related to Medy-Tox's China entry and sustainable earnings in other emerging countries. Demand for botulinum toxin procedures continues to grow globally and presents a significant opportunity for the lower-priced Korean manufacturers.

Noah Holdings, a leading wealth manager in China, has been executing at a high level through its strong brand name and market-leading position, as well as its ability to deliver top-notch customer service to high net worth individuals. However, investors were disappointed that management did not raise 2019 full-year guidance following strong Q1 performance. Given ongoing US-China trade tension, we believe management's decision was prudent and remain attracted to the company's ability to generate sustainable growth. Shortly after the quarter concluded, Noah Holdings disclosed its exposure to CNY 3.4 billion of credit products related to Camsing International, whose CEO was arrested by Chinese authorities. We are closely monitoring the situation, but at this point, it has not altered our confidence in Noah's management.

Shares of Sinopharm, the largest drug distributor in China, retreated during the period despite strong YTD drug sales growth in China. We believe the recent slide in Sinopharm's stock price is likely related to specific decisions by large investors and forced selling factors, as there has not been any negative turn in company fundamentals. We believe Sinopharm is well-positioned to capitalize on China's ongoing growth in health care expenditures. Further, we believe Sinopharm will be a prime beneficiary of industry consolidation as various government policies drive the industry toward a few national distributors.

Portfolio Activity

During Q2, we exited our position in Godrej, an India-based consumer products company focused primarily on Indian household insecticides, hair care and personal care products. Recently, the company has faced competition challenges in its key insecticides segment as well as weaker execution in its international businesses. We decided to conclude our investment in favor of more attractive opportunities.

One of the investments we initiated in Q2 was Metropolis Healthcare, an Indian medical diagnostics company. The marketplace in India is shifting toward organized and branded players such as Metropolis, which has the third-largest diagnostic lab chain in the country. Metropolis is also differentiating itself from industry peers by focusing more on specialized tests, rather than routine bloodwork. We believe these factors present significant room for revenue growth for Metropolis, especially in the business-to-consumer area of the market.

Perspective

Sustainability is a critical aspect of what we do. To us, sustainability means having the ability to endure. It includes—but goes beyond—environmental, social and governance (ESG) considerations. More broadly, it entails businesses making the right strategic choices that bring continuity to their shareholders, employees, customers and the communities around them. Ultimately, we invest in emerging markets because as a team of people who were born, educated and have spent large amounts of time in these countries, we want to direct capital to companies that can have a long-term positive impact on emerging markets' people.

We do what we do because we care passionately about the people of emerging markets—which, as investors, implies caring about their economies and markets as well, given our belief that economic growth will ultimately lead to better lives and futures for these populations. As a result, we have spent some two decades developing a rigorous investment approach that simultaneously attempts to leave no stone unturned while avoiding companies not committed to growing sustainably over time. While we recognize emerging markets will likely always be inherently more volatile than developed markets, we believe the rewards over time should likewise be outsized. Furthermore, we believe the effort required to find companies behind which we are interested in putting our capital is eminently worthwhile.

Business Update

On April 1, we updated our team name to the Artisan Partners Sustainable Emerging Markets Team—a name which highlights our historic focus on sustainability. However, our investment philosophy and process remain the same as they have since our team's founding, and we will continue to deploy it to find sustainable growth opportunities in what we believe to be the best reflection of the full emerging markets opportunity set.

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. 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: Sberbank of Russia PJSC 2.4%, Sunny Friend Environmental Technology Co Ltd 2.0%, Noah Holdings Ltd 1.6%, Sinopharm Group Co Ltd 1.3%, Medy-Tox Inc 1.1%, Arco Platform Ltd 0.9%, Metropolis Healthcare Ltd 0.6%. 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.

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.

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Free Cash Flow is a measure of financial performance calculated as operating cash flow minus capital expenditures.

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