Artisan Developing World Fund

QUARTERLY
Commentary

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

As of 30 September 2019

Portfolio Management
Lewis S. Kaufman, CFA

Dear Fellow Shareholder:

Market Backdrop

Artisan Developing World Fund (Investor Class) returned -4.41% for the quarter ended September 30, 2019, versus -4.25% for the MSCI Emerging Markets Index (all returns in USD unless stated otherwise). Since June 30, 2015, Artisan Developing World Fund has returned 39.13% cumulatively, versus 14.12% for the MSCI Emerging Markets Index. The slowing global economy has been a key narrative in recent months, as reflected most notably in the inversion in US and European yield curves. Non-US assets were broadly weaker during the quarter (MSCI EM Currency Index -2.53%, MSCI EAFE Index -1.07%) as investors sought safety, while US stocks rose (S&P 500® Index 1.70%). The Federal Reserve lowered interest rates, and global central banks (including those in emerging markets) followed suit, as policymakers increasingly prioritize growth over upside inflationary risks. For emerging markets, escalating trade tensions between the US and China continue to have a deleterious impact, while escalating Hong Kong protests have also increased investor concern. Although the effects on Chinese assets prices may seem obvious, the impact was more nuanced. For example, the Shanghai Shenzhen CSI 300 Index rose 0.85% during the quarter, while the renminbi declined 3.94% against the dollar, thereby dragging dollar-based China returns into negative territory. In turn, emerging markets deemed dependent on foreign capital came under pressure in dollar terms (Indonesia -5.19%, India -5.15%, South Africa -12.60%, Brazil -4.58%). The poor electoral outcome in Argentina and subsequent pressure on the peso (-26.24%) may have exacerbated this effect. Relative bright spots included Russia (-1.39%) which benefited from the strike on Saudi oil production and rise in energy prices, and Mexico (-1.72%) due to simmering tensions with and proximity to the US. Taiwan, though not a focus for our fund, also rose 5.19% during the quarter, likely reflecting optimism about a rebound in semiconductor demand. It is worth noting that Indian markets were under severe pressure through most of the quarter (-10.76% through September 19), only to recover 6.28% the remainder of the quarter due to an immediate 10% corporate tax cut intended to stimulate investment demand.

Contributors and Detractors

Top contributors to performance for the quarter included premium Chinese spirits company Kweichow Moutai, Chinese pharmaceutical company Jinagsu Hengrui Medicine Company (Hengrui), US graphics semiconductor company NVIDIA, Brazilian stock exchange Brasil Bolsa Balcao (B3) and Brazilian drugstore chain Raia Drogasil. Kweichow Moutai rose on easing concerns regarding the company's volume allocations to parent company distributors, which should increase supply to Moutai's company-owned stores and the Internet and allow for better price realization. Hengrui rose as clinical data for its new anti-PD-1 monoclonal antibody suggested the drug will have multiple indications in China (i.e., Hodgkin's lymphoma, liver cancer, esophageal cancer and non-small-cell lung cancer). NVIDIA rebounded on signs of an end to destocking and good new product uptake in its gaming business, while its data center business showed renewed strength from most key hyperscaler customers, reflecting underlying secular trends. B3 continued its ascent as equity volumes improved against a backdrop of falling interest rates and strong retail investor demand. Raia Drogasil benefited from renewed same-store sales growth as the company's efforts to improve its competitive positioning via lower prices for generics and ongoing new store openings took hold.

Detractors from performance for the quarter included global entertainment streaming business Netflix, Dutch payments provider Adyen, Pan-Asian life insurer AIA, Indian financial services company HDFC Bank and Hong Kong stock and futures market operator Hong Kong Exchanges & Clearing. Netflix has been pressured following a decline in US subscribers on the back of a recent price increase, as well as signs of growing competition from Disney and Apple. Adyen was down despite satisfactory operating results, perhaps due to the overhang from continued private equity share placements or the broader correction for high-growth payments assets. AIA was down amid ongoing civil unrest in Hong Kong, which has raised concerns about premium growth there from both Hong Kong and Chinese customers. HK Exchange has also been pressured by protests in Hong Kong which have raised questions about Hong Kong's status as a leading financial center. These concerns have only been exacerbated by HK Exchange's decision to pursue an acquisition of the London Stock Exchange. HDFC Bank declined as the company reduced loan growth targets and increased provisions in anticipation of a deteriorating economic environment, though it rebounded significantly in recent days due to the aforementioned corporate tax cut.

Market Outlook

The twin engines of global economic growth (the US and China) have sputtered, likely due to the impact of trade tensions. In the United States, manufacturing weakness has become more pronounced, while investment activity has decelerated. Interestingly, consumption growth has remained resilient, perhaps reflecting improved consumer balance sheets since the global financial crisis or broad employment strength. However, wage gains remain elusive, and it is unclear that consumption can remain robust indefinitely in the absence of improved investment activity. In recognition of these pressures, the Federal Reserve has recently embarked on a rate-cutting cycle of still-undetermined depth and faces increased pressure from the White House to cut rates further. China's economy has also seen weak investment activity, as visible in double-digit declines in domestic auto volumes and tepid durable goods consumption. China also continues to suffer from the aftershock of the 2018 deleveraging drive, which stabilized leverage ratios but pressured growth in total social finance (TSF) which is an inclusive measure of credit. As in the US, consumption continues to serve as the primary growth engine, though household debt levels in China have risen somewhat. China has responded by cutting personal income taxes (PIT) and lowering the value-added tax (VAT), which is a corporate tax, in hopes of

stimulating investment demand. It has also reduced reserve rate requirements (RRR), the loan prime rate (LPR) and the medium-term lending facility (MLF) for banks; the pace of monetary easing so far has been measured. It should be noted that both the US and China saw dislocation in money market rates and tight liquidity conditions in recent months. It should also be noted that the economic deceleration is increasingly visible globally. For example, Germany is approaching a technical recession due to weak manufacturing activity and a limited appetite for fiscal stimulus, despite negative policy rates from the ECB.

German economic growth is the perfect segue to the recent yield curve inversion. When long-term bond yields fall below short-term policy rates, it is a signal that market participants are concerned about the outlook for growth and inflation. This is not to say there aren't other forces at play, such as global capital flows or demographics. However, the reality is that despite lower policy rates and central bank balance sheet expansion, growth remains disappointing and inflation elusive. In essence, policymakers have been able to generate asset price increases (stock markets, bond markets, real estate) but have not created significant wage gains or more inclusive measures of growth. Global populism reflects this dynamic. While central bankers continue to push the boundaries of monetary policy, there is increasing recognition that such policy has its limits and that some degree of fiscal support is probably necessary as well. Some fiscal stimulus proponents have argued that a low-inflation environment may prove permanent due to the disinflationary impact of technology and other forces. Others have argued that a more inclusive definition of economic welfare is required if we are to stem the forces of populism. This argument is likely to become a focal point of global economic debate, though long-fought inflation anchors probably can't be taken for granted.

Process Evolution

Emerging markets, particularly those with strong domestic demand backdrops, have historically been able to transcend some of these constraints. Indeed, low penetration domestic demand has been a key investment principle for us for almost a decade because in theory, it engenders better compounding outcomes. About two years ago, we began to explore the concept of total factor productivity. In essence, we had observed that low penetration domestic demand had too often become insufficient for value realization. An increasing proportion of our investments were constrained by affordability or other factors that were resulting in deferred or unsatisfying value realization. Total factor productivity was a tool for understanding why this was occurring, as it reflects the interaction of labor formation and capital accumulation and how this interaction can create sustained productivity gains. In essence, most emerging markets had once benefited from a demographic dividend, or at least an ample supply of workers. Thus, investment came to these countries to capitalize, resulting in productivity gains and attractive GDP growth rates. More recently, labor costs have risen reflecting demographics and a skilled labor deficit, capital accumulation has slowed, and productivity growth has become elusive. Thus, many emerging markets are confined to slowing potential growth. To the extent that we were investing in companies tied to employment trends or wage growth, this in turn posed a real constraint on value realization and our broader domestic demand framework. Our response to this constraint has been the concept of scalability. We need companies that have scalable business models that can transcend the economic growth limitations of traditional emerging markets like India, Russia, Brazil, South Africa, Mexico and Indonesia. Scalable businesses can also capture domestic demand, even constrained domestic demand, in a disproportionate way.

It should also be noted that China is very much a different story, provided that current trade negotiations do not take a far more onerous turn. This is because China has succeeded in creating an abundance of skilled labor and an ecosystem for capital formation. Thus, whereas many emerging markets may ultimately be confined to the middle-income trap, China has laid the groundwork for sustained productivity increases, which form the foundation for a reasonable level of potential GDP growth. Moreover, because China's population exceeds one billion people and features a large middle class with relatively homogenous consumer preferences, there is a scale to the consumer opportunity in China the likes of which the world has never seen. This is not to say we are not concerned about the economic deceleration in China (which we actually view as structural and healthy as capital accumulation slows). We are also not optimistic about the trajectory of trade tensions between the US and China, as underscored by Washington's recent criticism of human rights in China and its potential restrictions on US portfolio flows into China. However, we are optimistic about the underlying productivity story and about China's ability to produce businesses that are scalable and that engender compelling compounding outcomes. For this reason, we increasingly conceive of our portfolio in three spheres: China, scalable businesses in traditional emerging markets and scalable multinational companies tied to emerging markets. We will continue to pursue process evolution around our core set of investment principles.

We thank you for your trust and confidence.

Investment Process

We seek to build, preserve and reinforce a stream of compounded business value. We define this emphasis as follows:

Build: Pair low penetration domestic demand with scalable and enduring businesses.

Preserve: Create a differentiated correlation experience, manage currency volatility and limit risk of investment impairment.

Reinforce: Reinforce a compounding outcome through methodical portfolio improvement.

Investment Results (%)

As of 30 September 2019	QTD	YTD	Average Annual Total Returns 1 Yr	3 Yr	5 Yr	10 Yr	Inception[1]
Investor Class: ARTYX	**-4.41**	**25.02**	**20.33**	**9.95**	—	—	**8.17**
Advisor Class: APDYX	**-4.32**	**25.21**	**20.59**	**10.15**	—	—	**8.38**
Institutional Class: APHYX	**-4.31**	**25.23**	**20.71**	**10.22**	—	—	**8.48**
MSCI Emerging Markets Index	-4.25	5.89	-2.02	5.97	—	—	3.48

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 2019[1]	1.40	1.16	1.08
Prospectus 30 Sep 2018[2]	1.37	1.18	1.09

[1]Unaudited, annualized for the six-month period. [2]See prospectus for further details.

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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. S&P 500® Index measures the performance of 500 US companies focused on the large-cap sector of the market. MSCI EAFE Index measures the performance of developed markets, excluding the US and Canada. MSCI Emerging Markets Currency Index tracks the performance of 25 emerging market currencies relative to the US dollar. Shanghai Shenzhen CSI 300 Index (CSI 300) tracks the returns of the top 300 stocks traded in the Shanghai and Shenzhen stock exchanges. Emerging markets returns and country-specific index returns are in USD unless otherwise stated. All single country returns are net returns 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.

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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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