



Artisan International Small-Mid Fund

QUARTERLY
Commentary

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

As of 31 March 2021

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 31 March 2021	Average Annual Total Returns						
	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception
Investor Class: ARTJX	-1.43	-1.43	66.84	13.47	12.94	9.31	12.30
Advisor Class: APDJX	-1.38	-1.38	67.03	13.58	13.01	9.34	12.32
Institutional Class: APHJX	-1.36	-1.36	67.14	13.72	13.18	9.43	12.36
MSCI All Country World ex USA SMID Index	4.22	4.22	62.05	6.07	9.62	5.77	9.29
MSCI All Country World ex USA Small Cap Index	5.53	5.53	69.82	6.61	10.40	6.32	10.17

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
Annual Report 30 Sep 2020	1.33	1.18	1.09
Prospectus 30 Sep 2020 ¹	1.34	1.19	1.10

¹See 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.



Investing Environment

Equity markets produced positive returns in Q1 amid additional fiscal stimulus in the US and a global ramp-up in COVID-19 vaccine distribution. The energy and financials sectors fared best, benefiting from the anticipation of stronger global growth. The market's focus on potential inflation and the risk of rising rates drove a sharp rotation across sectors during the quarter, with health care emerging as the biggest laggard.

We'd like to start this letter on a consistent note reiterating that our investment approach is a bottom-up one predicated on identifying idiosyncratic investments in high-quality businesses backed by structural tailwinds. We invest with a five-year time horizon and align with themes that we believe will endure for a decade to come, avoiding shorter-lived low quality, cyclical and commodities-driven rotations. Over our history of investing, this approach has been tested in multiple dislocations, but we have always remained true to it.

"Consistency in the application of our process is what we know best, and what we believe will continue adding value for clients over the long term." We delivered this sentiment in our April 2020 letter amid an extremely uncertain and taxing period for global investors. At that time, we were cheered for our relative results, despite absolute returns being dismal to start the year. Today, we report flat absolute results to start the year and lag our benchmark. In many cases, stock price movement during the quarter did not match the fundamental progress our businesses delivered, and we tried to be thoughtful about taking advantage of short-term dislocations. To exemplify this point, we'll examine the divergence between price and fundamentals experienced by top holding NICE, but first a few comments on the forces of investor angst that dictated much of this quarter's returns: inflation fears and the risk of rising rates.

We will not attempt to forecast inflation over any particular timeframe. However, as risk aware as we tend to be, we could be considered perpetually inflation-wary. Therefore, inflation protection is embedded in our investment approach. In our view, the best way to deliver long-term resilience to inflationary forces is to create a portfolio of businesses that commands pricing power. Factors driving strong pricing power include a unique product set, a strong market position, product differentiation, customer intimacy and high-value bottleneck positioning within a company's respective industry. Additionally, once return on capital is high, there is a cushion in the variance between production and capital costs, and the business should find itself fundamentally protected from inflation over the long term.

With respect to the rising rate fears, we will table for the moment our skepticism that long-term rates rise in a sustained way in real terms and instead focus on the effect on financing for our portfolio companies. The ability to self-finance growth is an aspect of business quality we seek, and the companies across our portfolio possess low debt. Therefore, the interest cost movement is trivial for our portfolio companies, and bond market gyrations should not have immediate fundamental consequences.

On the back of these macro-based fears, investor sentiment rotated sharply during the quarter. NICE, an Israeli provider of contact center software with a global footprint, is a prime example of this indiscriminate rotation. Over its history, and our long-standing ownership, NICE has continually evolved. Most recently, the company has successfully transitioned many of its customers to the cloud/SaaS model and developed artificial intelligence (AI)-enabled analytics capabilities within its customer interaction software. The next wave of innovation includes acceleration in robotic process automation (RPA) tools, and further developments in Actimize, its fraud protection platform. These two vectors of growth will drive margin expansion and increased customer demand. We estimate that NICE is trading in the mid-20s on a cash flow multiple with no net debt. The company has a highly recurring revenue business model with a product suite that is difficult to replace, is growing in the high single digits/low double digits and is early in its penetration potential. There was no fundamental justification for NICE's nearly 25% point-to-point drop during the quarter, in our opinion. Rather, the market's "flavor of the week" appetite resulted in certain information technology segments, particularly software, being cast aside. We used the opportunity to look past market short-termism and increased our position.

NICE also reflects the continuing evolution of software in the portfolio, with AI becoming more prominent. AI has matured from primarily a buzz word to a real tool that increasingly creates value for enterprises. Model N is another holding that represents our growing focus on AI-enabled software. Model N offers revenue management software to assist pharmaceuticals and high-tech companies that manage a broad base of sophisticated customer relationships with complex product-specific pricing structures, nuanced discounting mechanisms, etc. Artificial intelligence tools have proven more effective than human beings at identifying mistakes in discounting.

Markets are not always wise and, at times, acquiesce to short-termism that creates meaningful market distortions. The preoccupations du jour may be SPACs (special purpose acquisition companies) or growth versus value, but we unwaveringly focus on what we can control: understanding fundamentals, determining the true drivers of value creation over the long term and identifying who the emerging winners and losers will be.

Performance Discussion

Our portfolio trailed the MSCI ACWI ex USA SMID Index in Q1, largely driven by an overweight to health care and holdings in information technology. Moreover, low to no exposure to financials, materials and energy were also sources of relative underperformance.

NICE (previously discussed) and MorphoSys were the largest detractors. Wall Street tends to be overly enthusiastic about a drug in a pipeline and then overly skeptical about execution of the launch. Launching a new drug in the midst of the pandemic is not particularly easy, and MorphoSys' pandemic launch of Monjuvi®—a treatment for relapse and refractory large B-cell lymphoma—has not fit their ideal profile. However, we feel it's worthwhile to be patient and maintain

our long-term view. Drugs are very difficult to get through clinical trials and regulatory processes; however, there can be massive upside once a drug is approved. The fact that a drug's launch is pushed out a couple of quarters does not affect our conviction in the value of a company. In the case of MorphoSys, the valuation is extraordinarily appealing to us. The company has a \$2.5 billion market capitalization, \$1.1 billion of net cash, \$1.5 billion enterprise value, receives a royalty of \$50 million per year (and growing) on sales of Tremfya®—a blockbuster biologic developed with J&J to treat plaque psoriasis and psoriatic arthritis and has huge sales potential with Monjuvi®, which demonstrated a very strong survival rate for the last line of the disease in a chemotherapy regimen. Monjuvi® is likely to have peak sales of \$750 million in third-line indication, and there is potential for use in earlier lines of non-Hodgkin's lymphoma and other hematological diseases. Additionally, MorphoSys has royalty rights on Roche's Alzheimer's drug, on which data are expected next year. If data are positive, this represents another avenue of growth with a 6.5% royalty. This option alone, in our view, is worth more than what the market is currently pricing in today.

Azbil, a manufacturer of automated control systems for HVAC equipment with dominant market share in Japan's industrial and commercial buildings, also detracted from returns after strong performance in previous quarters. Markets have taken a limited view of the stock, treating it as a short-term beneficiary of the pandemic due to heightened sensitivity over air quality in buildings. Our multiyear ownership and long-term thesis on Azbil remains intact. Its multiyear service contracts for HVAC systems should continue to support durable revenue growth, and its sensors play an important part in the evolution of "smart buildings" via remote monitoring and temperature controls that meaningfully improve efficiency and reduce carbon emissions.

Top contributors included Aixtron, Metso Outotec and Altus. Aixtron is part of our next-gen auto theme, as an enabler of production for next generation material science needed for increased range and the fast charging of electric vehicles, as well as the emerging 5G ecosystem. Traditional silicon-based semiconductors are reaching their physical limitations in terms of ability to efficiently handle high voltages, and we are only beginning to substitute them with silicon carbide and gallium nitride on silicon technology. Aixtron has evolved from a single-product company focused on metal-organic chemical vapor deposition machines for LED lamps to a broad industrial powerhouse focused on compound semiconductor equipment.

Metso is a machinery business that embraces innovations in electrification and IoT-driven sensors to automate mining operations. The shift toward mine automation should improve workers' wellbeing and reduce the use of raw materials, in addition to improving margins. Metso is benefiting from increasing demand for battery materials, and its equipment is becoming indispensable for the decarbonization of processes. The latter is important as the industry trends away from diesel and customers seek carbon credits.

Altus is a software company and de facto "Bloomberg-like" solution for the global commercial real estate industry, performing appraisal valuation and documentation. The industry is increasingly digitizing and transitioning to the cloud, resulting in greater monetization of data and analytics. Altus' strong position in this industry bodes well for durable, long-term earnings.

Positioning

Remaining committed to our contrarian approach to valuation, we have used market dislocations to acquire new positions and increase investments in structurally advantaged companies, such as procedure-sensitive areas of health care and select travel-related businesses. To call these "reopening" stocks feels too short-lived for our taste, as in all cases they represent wonderful businesses we believe are poised for sustained success. Entry points and valuations are key contributors to our investment success, and we feel particularly enthusiastic about these companies' abilities to capitalize on the eventual, if non-linear, economic rebound ahead.

In general, health care utilization is down meaningfully due to COVID. Elective procedures, such as hip, knee and eye procedures, are down 30% on a normalized basis. There is a lot of pent-up demand, and we saw this as an opportunity to purchase wonderful companies selling at a discount. We increased our positions in procedure-sensitive companies Alcon and Intersect ENT during the quarter.

Alcon, a manufacturer of surgical equipment and vision care products, is a prime example of a holding that has been punished during the pandemic. We applied our contrarian approach and increased our position in Alcon during the quarter. The company has outlined its path for revenue growth and margin expansion, making the valuation attractive for what we think is a very strong business. Another holding, Intersect ENT, produces medical devices associated with sinus surgery. The limited permissibility of elective surgeries and lack of in-person access to doctors have proved to be headwinds across health care segments. When the pandemic abates, we think these procedure-sensitive health care companies will create more sustainable value than cyclically driven purchases. For further details on companies within our vision beyond 2020 theme, please see our Q4 2020 letter.

Similarly, there is significant pent-up demand for a return to travel, but any opportunistic portfolio activity will not sacrifice our high bar on business quality. During Q1, we added to our positions in Jet2 and CAE. Jet2 is a highly profitable and conservatively managed UK-based packaged holiday business. Despite owning a small plane fleet, one should not confuse it with an airline, a business we've never found particularly attractive. Instead, Jet2 operates as an OTA (online travel agency) with vertical integration to key vacation routes in the UK, and its conservative balance sheet has allowed it to play offense as the competitive landscape has been impaired. CAE began as a manufacturer of simulators and has evolved into a world leader in pilot training with a network of flight school training centers around

the globe. The service revenue component to its business is substantial and comes with higher margins. Airlines have needed to maintain certification for their pilots, despite many being grounded throughout the pandemic, and now must train a new crop as they face aging demographics. With budgets pinched and airline efficiency as important as ever, the trend of outsourcing via best-of-breed service providers will only accelerate. In addition, CAE's opportunistic growth via acquisition has strengthened its scale, allowing it to compete for ever larger contracts. In our view, despite being situated in an optically tough industry for the past year, CAE will emerge from the pandemic stronger.

Our contrarian approach to valuation also applied to the trimming and exiting of a number of positions throughout the quarter, including Rakus, a Japan-based provider of expense management software; MIPS, an IP-intensive global leader in helmet technology; and Zscaler, a cybersecurity company. Zscaler represents a relatively short round trip for us, having entered the portfolio in Q1 2020 as we opportunistically expanded ownership in best-of-breed cybersecurity businesses in the early pandemic selloff. With its global cloud-based information security business and expanding product extensions, Zscaler has meaningfully benefited from the WFH (work from home) shift of disaggregated work forces. We consider all three terrific companies, but as the stock prices dramatically rose in a shorter timeframe than we expected, other opportunities presented more attractive risk/reward scenarios.

As always, the portfolio activity discussed in this letter is not an exhaustive report but a representative sampling of the promising investment opportunities we continue to find. We remain excited about our opportunity set and are hard at work to find the structural winners of tomorrow. We look forward to updating you on these and other opportunities in future letters.

ARTISAN CANVAS

Timely insights and updates from our investment teams and firm leadership

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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.

Current and future portfolio holdings are subject to risk. 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 SMID 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 31 Mar 2021. 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 31 Mar 2021: NICE Ltd 2.6%; Model N Inc 1.2%; MorphoSys AG 1.7%; Azbil Corp 1.7%; Aixtron SE 2.1%; Metso Outotec Oyj 2.2%; Altus Group Ltd 1.1%; Alcon Inc 1.6%; Intersect ENT Inc 1.0%; Jet2 PLC 1.6%; CAE Inc 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.

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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Return on Capital (ROC) is a measure of how effectively a company uses the money (borrowed or owned) invested in its operations.

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