

Artisan International Small Cap Investor ARTJX

This fund has real appeal in its new form, but it could well make a sizable distribution soon.

Morningstar's Take ARTJX

Morningstar Rating ★★

Morningstar Analyst Rating Bronze

Morningstar Pillars

Process	+	Positive
Performance	○	Neutral
People	+	Positive
Parent	+	Positive
Price	-	Negative

Role In Portfolio

Supporting

Fund Performance ARTJX

Year	Total Return (%)	+/- Category
YTD	-9.01	2.73
2017	33.35	-2.83
2016	-12.88	-9.91
2015	11.03	3.97
2014	-11.95	-6.56

Data through 10-31-18

10-24-18 | by William Samuel Rocco

Artisan International Small Cap's new management team and approach inspire confidence, so this fund earns a Morningstar Analyst Rating of Bronze.

This foreign small/mid-growth fund is in good hands. Rezo Kanovich, who took the helm on Oct. 15, 2018, has worked in the investment field for 19 years and served as the skipper of foreign small/mid-growth fund Oppenheimer International Small-Mid Company OSMAX from January 2012 to September 2018. Analysts Andres Avalos Vitiello and Samir Mainthia have solid resumes, and they worked with Kanovich on the Oppenheimer offering for several years before moving to Artisan with him. During Kanovich's tenure, the Oppenheimer fund handily outpaced this fund's return as well as the foreign small/mid-growth Morningstar Category average and its MSCI ACWI ex USA SMID Cap benchmark.

Kanovich is using the same thematically driven, long-term-focused, bottom-up approach here as he employed successfully at his Oppenheimer fund. Specifically, he is investing in firms positioned to benefit from structural growth trends. These companies tend to have unique business models, high barriers to entry, the ability to self-finance growth, and strong management teams. He looks for names that he can hold for an average of five years and tries to make purchases when companies' shares look mispriced. He avoids buying names with "growth at any price" valuations and generally caps individual holdings around 2% to reduce single-stock risk.

All this is encouraging; this fund has the makings of a good foreign small/mid-growth vehicle for the long term. But it comes with two caveats. First, Kanovich's process is quite different from his predecessor's approach. (The Oppenheimer fund had just eight names in common with this one in the last publicly available portfolio with him at the helm.) Thus, this fund will look much different than it has in the past, with lots of portfolio turnover in the short run. That could well result in a sizable distribution later this year. Second, this fund remains quite expensive.

Process Pillar + Positive | William Samuel Rocco 10/24/2018

Rezo Kanovich is employing the same thematically driven, long-term-focused, bottom-up stock-picking approach here as he used to earn terrific results during his 6.5-year tenure at the helm of Oppenheimer International Small-Mid Company. In particular, he invests in firms positioned to benefit from structural growth trends. These companies tend to have unique business models, high barriers to entry, the ability to self-finance growth, and strong management teams. He looks for names that he can hold for an average of five years and tries to make purchases when companies' shares look mispriced. He avoids buying names with "growth at any price" valuations and generally caps individual holdings around 2% to reduce single-stock risk.

Kanovich is executing this approach under this fund's current mandate. But Artisan filed a new prospectus, so he will have the leeway to run this fund exactly the same way he ran his prior charge. Artisan expects the new prospectus--which allows this fund to be repositioned as a small/mid-cap offering, to invest more in U.S. firms, to own many more names, and to hold more cash--to be approved in early December 2018.

Kanovich's strategy is sound and has been successful elsewhere, so this fund earns a Positive Process rating. That said, it is crucial to recognize that the process transition will result in lots of portfolio turnover and there could well be significant tax ramifications.

It is clear that Rezo Kanovich's process differs considerably from that of former manager Mark Yockey. That's evident from a comparison of the Aug. 31, 2018, portfolio of Oppenheimer International Small Company (which Kanovich managed from January 2012 to September 2018 using the same approach as he is going to employ here) and this fund's June 30, 2018, portfolio (which reflects Yockey's approach).

Kanovich uses a SMID discipline, and the Oppenheimer fund had an average market cap of \$5.3 billion as of Aug. 31; Yockey employed a small-cap strategy, and this fund had an average market cap of \$2.2 billion as of June 30. Kanovich regularly invests in U.S. stocks, and the Oppenheimer fund had 12% of its assets in such names; Yockey did not pay much attention to U.S. issues, and this fund had just 2% of its assets in such names. And Kanovich runs a more diversified portfolio than Yockey, so the Oppenheimer fund owned 153 stocks versus 47 for this fund. The two funds had only eight names in common.

In short, this fund will look much different under Kanovich than it did under Yockey, and there will be

quite a bit of portfolio turnover as Kanovich implements his process. Given that turnover, that Kanovich took charge roughly two weeks before the end of this fund's fiscal year, and that this fund is sitting on lots of embedded gains, a sizable distribution could well be coming here later this year.

Performance Pillar ● Neutral | William Samuel Rocco 10/24/2018

This fund earns a Neutral rating for Performance because current skipper Rezo Kanovich has been in charge of this foreign small/mid-growth offering for less than one month, and his investment process is quite different from the one that former lead manager Mark Yockey used.

Yockey, who was at the helm for nearly 17 years, regularly delivered strong results during the first decade of his tenure, and this fund's 15-year and since-inception records are good. But this fund often underperformed in recent years--the first nine months of 2018 was an exception--and this fund's three-year and five-year records are poor. This fund posted an annualized return of 4.8% and a Morningstar Risk-Adjusted Return of 2.5% during the five years through Sept. 30, 2018, versus 7.3% and 5.5% for its average rival and 8.9% and 7.0% for the MSCI EAFE Small Cap Growth Index (this offering's benchmark during Yockey's tenure).

By contrast, Kanovich delivered impressive results during his roughly 6.5-year tenure at Oppenheimer International Small-Mid Company (which is also a foreign small/mid offering). Indeed, that fund posted an annualized return of 17.7% and a Morningstar Risk-Adjusted Return of 15.4% on his watch versus 10.7% and 8.4% for its average rival and 8.2% and 5.7% for the MSCI ACWI ex USA SMID Cap Index (that offering's benchmark during Kanovich's tenure there).

People Pillar ● Positive | William Samuel Rocco 10/24/2018

Rezo Kanovich, who took the helm of this foreign small/mid-growth fund from lead manager Mark Yockey and comanager Charles-Henri Hamker on Oct. 15, 2018, has strong credentials for his new position. He spent the past 13 years at Oppenheimer, where he worked first as an analyst on Oppenheimer Global OPPAX for roughly 6.5 years and then served

as the skipper of Oppenheimer International Small-Mid Company for roughly 6.5 years. The latter fund, which also is a foreign small/mid-growth offering, handily outpaced its average peer, its MSCI ACWI ex USA SMID Cap benchmark, and this fund during his tenure. And he worked as an analyst with Boston Biomedical Consultants, as an investment banker with Lehman Brothers, and as a consultant at PricewaterhouseCoopers prior to joining Oppenheimer in 2005, so he has 19 years of experience.

Meanwhile, the two analysts who worked with Kanovich on Oppenheimer International Small-Mid Company--Andres Avalos Vitiello and Samir Mainthia--came with him to Artisan and now serve as the analysts on this fund. Avalos Vitiello and Mainthia served as analysts on the Oppenheimer fund for approximately six years and three years, respectively, so they have also solid resumes for the task at hand.

The new management team is small, but it has been stable and had considerable success at its previous foreign small/mid-growth offering, so this fund earns a Positive People rating.

Parent Pillar ● Positive | William Samuel Rocco 03/28/2018

Artisan hires proven or promising managers and allows them to build and run their teams with a large degree of autonomy. Four of the five teams with long histories have performed strongly over longer-term periods. The emerging-markets team lags its benchmark since the strategy's June 2008 founding, though performance has rebounded lately. Three teams have joined since early 2014, and two of those reflect the firm's broadened lineup, which previously focused strictly on equities: One invests in high-yield debt, while another runs a thematically driven alternatives strategy. It's unlikely the firm will launch another equity strategy in the near future.

Beyond delivering largely solid performance, the firm tends to close funds to preserve their flexibility and increase the chances that they will continue to outperform. Indeed, five of the firm's 15 funds are currently closed to new investors. (Two others have been closed in the past.) The firm also has a clean regulatory history.

Artisan went public in March 2013. While this could pressure management (led by Eric Colson, who became CEO in 2010) into keeping popular funds open to boost revenue, it has thus far continued to close them. Its executives no longer control the stock's voting shares, but the firm's employees, founders Andy and Carlene Ziegler, and two private equity firms who have owned stakes since Artisan's 1994 founding own close to 40% of the firm combined.

Price Pillar ● Negative | William Samuel Rocco 10/24/2018

This fund earns a Negative Price rating because all of its assets are in share classes with high expense ratios. The no-load share class, which holds roughly 56% of the assets, has an expense ratio of 1.57%. That expense ratio is 27 basis points above the median of 1.30% for no-load foreign small/mid-cap funds. The institutional share class, which holds the remainder of the assets, has an expense ratio of 1.37%. That expense ratio is 29 basis points above the median of 1.08% for institutional foreign small/mid-cap funds.

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Investment Results as of 30 Sep 2018 (%)						Expense Ratios
Artisan International Small Cap Fund	YTD	1 YR	5YR	10 YR	ITD	Prospectus 30 Sep 2017
Investor Class: ARTJX	1.65	8.70	4.80	9.46	11.70	1.57
Institutional Class: APHJX	1.77	8.94	4.89	9.51	11.73	1.37
MSCI EAFE Small Cap Index	-2.19	3.73	7.96	9.68	10.33	—

Source: Artisan Partners/MSCI. Returns less than one year are not annualized. Class inception: International Small Cap Investor (21 December 2001); International Small Cap Institutional (12 Apr 2016)

Past performance does not guarantee and is not a reliable indicator of future results. The investment return and principal value of an investment in the Fund will fluctuate, so that an investor's shares in the Fund, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. For current to most recent month-end performance information, call 800.399.1770.

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 visiting www.artisanfunds.com. 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 EAFE Small Cap Index measures the performance of small-cap companies in developed markets, excluding the US and Canada. The index is unmanaged; includes net reinvested dividends; does not reflect fees or expenses; and is not available for direct investment. MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used to create indices or financial products. This report is not approved or produced by MSCI.

Artisan International Small Cap Fund is categorized in the Morningstar Foreign Small/Mid Growth Category. Foreign small/mid-growth portfolios invest in international stocks that are smaller, growing faster, and higher-priced than other stocks. These portfolios primarily invest in stocks that fall in the bottom 30% of each economically integrated market (such as Europe or Asia ex-Japan). Growth is defined based on fast growth (high growth rates for earnings, sales, book value, and cash flow) and high valuations (high price ratios and low dividend yields). These portfolios typically will have less than 20% of assets invested in U.S. stocks.

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