



# Artisan Mid Cap Value Fund

MONTHLY  
Commentary

Investor Class: ARTQX | Advisor Class: APDQX

As of 31 July 2018

## Commentary

With earnings season underway in earnest, markets were more attuned to the beats and misses than to any trade tensions or presidential summits. The Russell Midcap® Value Index gained most of its ground early in the month, but rallied to its high at month-end, outpacing growth stocks. Industrials and health care led index total returns, with financials also contributing notably. Meanwhile, the consumer staples and telecom sectors dragged with negative returns.

Our portfolio slightly trailed the Russell Midcap® Value Index over the month. Above-benchmark consumer discretionary exposure and below-benchmark health care exposure detracted from relative returns. The largest detractor by sector was information technology, where we steadily pared holdings in IAC/InterActiveCorp. Below-benchmark exposure to interest rate proxies (real estate and utilities) was a tailwind for the portfolio as interest rates moved higher. Consumer staples holdings also contributed, namely grocery retailer Kroger.

Our largest individual detractor was a new purchase, the consumer financial services firm Synchrony Financial. We added it to the portfolio as the price fell over the month, pressured lower when it failed to renew its Walmart partnership. While losing Walmart caused a painful month for the stock, our view is Synchrony is a value-added partner. Additionally, the PayPal partnership, which was announced earlier this year, closed on July 2. The \$7.6 billion of balances offset a great deal of the \$10 billion Walmart loss. We believe PayPal is a higher quality partner to grow with, and the profitability of the contract is likely better over the long run. Synchrony's balance sheet remains solid, credit is improving, and we hope management can validate its value proposition to customers by renewing a few key contracts in the coming year.

Another detractor was CBS, which was weaker on the back of misconduct accusations against CEO Les Moonves. Despite these concerning claims, our thesis on CBS is intact: CBS can benefit from rising cash flows coming from retransmission contract renewals, its production company and ownership of the Showtime cable network and local affiliates, as well as its scarcity value due to its breadth of strategic assets. We believe CBS is positioned well for evolution in the media industry. While the top line is growing only slightly, the revenue mix continues to shift away from less stable advertising revenue to more stable affiliate fees and licensing revenue. CBS also returns all its free cash flow to shareholders via dividends and buybacks and remains well capitalized.

Andeavor, a refiner and marketer of petroleum products, was the top individual contributor. Andeavor rallied in sync with a strong earnings report by its merger partner Marathon Petroleum. Arch Capital Group, a multi-line insurer and long-time holding, was another top contributor whose steady gains stood out in a sector (insurance) that performed relatively well overall. The materials sector was not a particularly strong contributor, but specialty chemical maker Celanese, headed by Mark Rohr, contributed smartly to returns and remains a story of a great jockey on a decent horse.

## Investment Results (%)

As of 31 July 2018	Average Annual Total Returns							
	MTD	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception
Investor Class: ARTQX	2.17	2.17	3.43	10.44	9.28	7.24	9.40	10.62
Advisor Class: APDQX	2.18	2.18	3.53	10.58	9.41	7.32	9.44	10.64
Russell Midcap® Value Index	2.72	2.72	2.56	9.07	9.82	10.71	10.49	10.25
Russell Midcap® Index	2.49	2.49	4.90	13.45	10.21	11.51	10.79	9.94

As of 30 June 2018

Investor Class: ARTQX	1.46	3.70	1.23	9.30	7.79	8.08	8.97	10.53
Advisor Class: APDQX	1.50	3.75	1.32	9.43	7.92	8.16	9.01	10.56
Russell Midcap® Value Index	0.81	2.41	-0.16	7.60	8.80	11.27	10.06	10.13
Russell Midcap® Index	0.69	2.82	2.35	12.33	9.58	12.22	10.23	9.83

Source: Artisan Partners/Russell. Returns for periods less than one year are not annualized. Class inception: Investor (28 March 2001); Advisor (1 April 2015). For the period prior to inception, Advisor Class performance is the Investor Class's return for that period ("Linked Performance"). Linked Performance has not been restated to reflect expenses of the Advisor Class and the share class's returns during that period would be different if such expenses were reflected.

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.

## Portfolio Details

	ARTQX	APDQX
Net Asset Value (NAV)	\$23.51	\$23.48
Inception	28 Mar 2001	1 Apr 2015
Expense Ratios		
Semi-Annual Report 31 Mar 2018 <sup>1</sup>	1.20%	1.06%
Prospectus 30 Sep 2017 <sup>2</sup>	1.17%	1.06%

<sup>1</sup>Unaudited, annualized for the six-month period. <sup>2</sup>See prospectus for further details.

## Top 10 Holdings (% of total portfolio)

Celanese Corp (Materials)	3.7
AutoNation Inc (Consumer Discretionary)	3.1
Air Lease Corp (Industrials)	3.0
The Kroger Co (Consumer Staples)	2.9
Devon Energy Corp (Energy)	2.9
Torchmark Corp (Financials)	2.7
Fifth Third Bancorp (Financials)	2.6
AMERCO (Industrials)	2.6
Hess Corp (Energy)	2.6
IAC/InterActiveCorp (Information Technology)	2.5
<b>TOTAL</b>	<b>28.6%</b>

Source: Artisan Partners/FactSet (GICS).

## Sector Diversification (% of total portfolio equities)

	Fund	RMCV <sup>1</sup>
Consumer Discretionary	24.5	11.5
Consumer Staples	3.2	4.9
Energy	12.9	7.7
Financials	22.2	18.3
Health Care	1.0	6.7
Industrials	17.4	12.3
Information Technology	7.7	9.0
Materials	8.3	6.4
Real Estate	2.9	13.0
Telecommunication Services	0.0	0.5
Utilities	0.0	9.9
<b>TOTAL</b>	<b>100.0%</b>	<b>100.0%</b>

Source: Artisan Partners/FactSet (GICS)/Russell. Cash and cash equivalents represented 7.9% of the total portfolio. <sup>1</sup>Russell Midcap® Value Index.

## Market Cap Distribution (% of total portfolio equities)

\$ in billions	Fund	RMCV <sup>1</sup>
23.0+	18.4	18.1
16.0–23.0	20.0	23.1
11.0–16.0	12.6	19.6
6.5–11.0	25.4	20.8
0–6.5	23.5	18.5
<b>TOTAL</b>	<b>100.0%</b>	<b>100.0%</b>

Source: Artisan Partners/FactSet/Russell. <sup>1</sup>Russell Midcap® Value Index.

## Team Leadership (Pictured left to right)



Portfolio Managers	Years of Investment Experience
James C. Kieffer, CFA	29
Thomas A. Reynolds IV	19
Daniel L. Kane, CFA	20

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.

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. Value securities may underperform other asset types during a given period.

Russell Midcap® Value Index measures the performance of US mid-cap companies with lower price/book ratios and forecasted growth values. Russell Midcap® Index measures the performance of roughly 800 US mid-cap companies. The index(es) are unmanaged; include net reinvested dividends; do not reflect fees or expenses; and are not available for direct investment.

For the purpose of determining the Fund's holdings, securities of the same issuer are aggregated to determine the weight in the Fund. The discussion of portfolio holdings does not constitute a recommendation of any individual security. These holdings comprise the following percentages of the Fund's total net assets as of 31 Jul 2018: Andeavor 2.5%; Arch Capital Group Ltd 2.2%; CBS Corp 2.2%; Synchrony Financial 1.9%. Securities named in the Commentary, but not listed as a Top Ten Holding or not listed here are not held in the Fund as of the date of this report. The portfolio managers' views and portfolio holdings are subject to change and the Fund disclaims any obligation to advise investors of such changes.

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Sector exposure percentages reflect sector designations as currently classified by GICS.

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

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