



# Artisan Mid Cap Value Fund

MONTHLY  
Commentary

Investor Class: ARTQX | Advisor Class: APDQX

As of 30 June 2018

## Commentary

Stocks weakened into month-end and volatility crept higher as Q2 earnings expectations fell amid rising trade tensions and a potentially more-hawkish Fed. Still, total returns were positive QTD as earnings estimates still ended better than where they started. US mid-cap value stocks outpaced growth in June, but trailed growth for the quarter. QTD returns (based on the Russell Midcap® Value Index) were led by energy and telecom, while industrials and financials detracted.

Our portfolio led the Russell Midcap® Value Index over the quarter. Devon Energy was the top individual contributor as rising crude oil prices gave us an opportunity to trim the position on commodity strength. Devon, an independent energy company, was also buoyed by an announcement in June that it would sell its interest in EnLink Midstream for \$3 billion and use the proceeds to raise its share buyback program to \$4 billion, retiring approximately 20% of outstanding shares by the end of 2019.

Another top contributor was TripAdvisor (Trip), a leading online travel research company. Better top-line trends, particularly in its non-hotel business, and reduced marketing spend in the hotel segment helped shares continue to recover from their November 2017 lows. While reduced marketing spend in any given quarter is no reason to get excited, Trip's reduction reflects the end of a spending surge that was meant to grow their mobile presence and fend off competition. We believe a return to normal levels of marketing could substantively increase cash EPS. Trip's balance sheet is solid, and the company continues to generate ample free cash flow.

Our biggest detractors included Fluor, an engineering and construction company, and Qurate, a video and Internet commerce business that owns the QVC® network, formerly known as Liberty Interactive QVC.

Earlier in the quarter, Fluor took additional power project write-downs, related to forecast revisions on a gas-fired project, one of three that continues to hamper financial performance. Last year, cost escalations on these projects resulted in the decision to exit the fixed-price gas-fired project business altogether. This has been a source of bad investor sentiment for some time, and this quarter those concerns rose to the forefront again. Though the results were disappointing, we think management is finally beginning to learn from its execution missteps. Meanwhile, the market's expectations for improvement remain quite low. Fluor's balance sheet remains sound, and the firm tends to be shareholder-friendly with capital allocation plans.

In addition to the re-branding, Qurate is transitioning from a complicated tracking-stock structure to an asset-backed security, which had proven a headwind to its valuation. Business performance continues to improve as the company moves QVC toward an omni-channel model. In general, we believe the shares remain cheap and the business generates free cash flow that largely gets put back to shareholders and value-enhancing strategic moves. Furthermore, we believe aligning ourselves with good capital allocators (like Liberty Media's Chairman John Malone) is good practice and can be an important differentiator.

## Portfolio Details

	ARTQX	APDQX
Net Asset Value (NAV)	\$23.01	\$22.98
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)

Hess Corp (Energy)	3.6
Celanese Corp (Materials)	3.5
Devon Energy Corp (Energy)	3.3
AutoNation Inc (Consumer Discretionary)	3.2
IAC/InterActiveCorp (Information Technology)	3.1
Air Lease Corp (Industrials)	2.9
The Kroger Co (Consumer Staples)	2.9
Andeavor (Energy)	2.8
Fifth Third Bancorp (Financials)	2.5
Torchmark Corp (Financials)	2.5
<b>TOTAL</b>	<b>30.3%</b>

Source: Artisan Partners/FactSet (GICS).

## Sector Diversification (% of total portfolio equities)

	Fund	RMCV <sup>1</sup>
Consumer Discretionary	23.6	11.6
Consumer Staples	3.2	5.1
Energy	15.3	7.7
Financials	20.6	18.2
Health Care	1.1	6.4
Industrials	16.7	11.8
Information Technology	8.3	8.9
Materials	8.2	6.3
Real Estate	2.9	13.3
Telecommunication Services	0.0	0.6
Utilities	0.0	10.0
<b>TOTAL</b>	<b>100.0%</b>	<b>100.0%</b>

Source: Artisan Partners/FactSet (GICS)/Russell. Cash and cash equivalents represented 8.3% of the total portfolio. <sup>1</sup>Russell Midcap® Value Index.

## Investment Results (%)

As of 30 June 2018	MTD	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception
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.

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

\$ in billions	Fund	RMCV <sup>1</sup>
23.0+	17.2	14.4
16.0–23.0	23.5	24.3
11.0–16.0	10.0	19.4
6.5–11.0	27.3	22.7
0–6.5	21.9	19.2
<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 30 Jun 2018: Fluor Corp 2.3%; Quate Retail Inc 2.4%; TripAdvisor Inc 2.0%. 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.

Unless otherwise indicated, all information in this report includes all classes of shares, except performance and expense ratio information, and is as of the date shown in the upper right hand corner. Totals may not sum due to rounding.

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

**Earnings per Share (EPS)** is the portion of a company's profit allocated to each outstanding share of common stock. **Free Cash Flow** is a measure of financial performance calculated as operating cash flow minus capital expenditures.

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