



Artisan Mid Cap Value Fund

MONTHLY
Commentary

Investor Class: ARTQX | Advisor Class: APDQX

As of 31 August 2019

Commentary

Quarter to date, growth stocks remain in favor over value, and large-cap names are outperforming mid- and small-cap companies. The Russell Midcap® Value Index is down 2.72% since the end of Q2, led lower by the energy, materials and consumer discretionary sectors. Defensive and interest rate sensitive sectors—real estate, utilities and consumer staples—are the only sectors to post positive total returns QTD as US interest rates have collapsed to record lows. Our portfolio lags the index, dragged down primarily by below-benchmark exposure to the utilities and real estate sectors, which have held strength as interest rates have fallen.

Construction services firm Fluor is the portfolio's top QTD detractor. Since the CEO's abrupt departure in May, Fluor's share price has been under pressure as the company's long turnaround effort has tested investors' patience. The balance sheet looks to be more levered than the headline numbers suggest when we take into account, on top of the existing debt, the cash outflows that will be necessary to deal with a multitude of problem projects. Additional uncertainty around further write-downs and several large fixed-cost projects in the backlog are also likely to weigh on the balance sheet. With growing leverage and increasing risks of further write-downs, our view on the business has materially changed. We have begun exiting this position.

Another top detractor, camper and RV manufacturer Thor Industries, was a new purchase in Q2. That a new purchase is among the top detractors is not uncommon—rather, it is a phenomenon consistent with our process and philosophy. We seek to invest in companies that are out of favor, where the market's valuation is driven by fear or uncertainty, creating an opportunity for value investors to acquire stakes in quality franchises at discounted prices. In this case, an industry overhang is a very near-term risk for the stock price. As the industry works through the excess capacity, we believe Thor's dominant market position and history of understanding consumer tastes in this segment throughout market cycles will be a lodestar for a rising valuation.

AutoNation, an automobile retailer, is the top contributor QTD, even though the price was stable in August. Management has executed well by improving variable gross profit per vehicle, and the predictable, high-margin parts and service business is growing. In addition, a renewed emphasis on cost controls has supported the margin-focused efforts—a welcome surprise for investors.

Investment Results (%)

As of 31 August 2019	Average Annual Total Returns							
	MTD	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception
Investor Class: ARTQX	-6.05	-4.92	11.87	-7.63	5.47	2.99	9.57	9.56
Advisor Class: APDQX	-6.01	-4.88	11.96	-7.48	5.62	3.11	9.63	9.59
Russell Midcap® Value Index	-3.53	-2.72	14.81	-3.13	6.54	5.88	12.46	9.51
Russell Midcap® Index	-2.85	-1.46	19.57	0.54	10.05	7.94	13.48	9.54

As of 30 June 2019

Investor Class: ARTQX	7.56	5.06	17.65	0.44	8.47	4.12	11.43	9.95
Advisor Class: APDQX	7.58	5.13	17.70	0.57	8.59	4.23	11.49	9.99
Russell Midcap® Value Index	6.75	3.19	18.02	3.68	8.95	6.72	14.56	9.77
Russell Midcap® Index	6.87	4.13	21.35	7.83	12.16	8.63	15.16	9.72

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)	\$18.95	\$18.91
Inception	28 Mar 2001	1 Apr 2015
Expense Ratios		
Semi-Annual Report 31 Mar 2019 ¹	1.21%	1.09%
Prospectus 30 Sep 2018 ²	1.20%	1.05%

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

Top 10 Holdings (% of total portfolio)

Celanese Corp (Materials)	3.8
AutoNation Inc (Consumer Discretionary)	3.3
Air Lease Corp (Industrials)	3.3
Analog Devices Inc (Information Technology)	3.1
Arch Capital Group Ltd (Financials)	3.0
Globe Life Inc (Financials)	2.9
Gentex Corp (Consumer Discretionary)	2.8
GCI Liberty Inc (Communication Services)	2.7
Expedia Group Inc (Consumer Discretionary)	2.6
The Kroger Co (Consumer Staples)	2.6
TOTAL	29.9%

Source: Artisan Partners/FactSet (GICS).

Sector Diversification (% of total portfolio equities)

	Fund
Communication Services	13.0
Consumer Discretionary	15.2
Consumer Staples	2.7
Energy	2.5
Financials	28.8
Health Care	4.2
Industrials	13.7
Information Technology	7.1
Materials	8.3
Real Estate	4.5
Utilities	0.0
TOTAL	100.0%

Source: Artisan Partners/FactSet (GICS). Cash and cash equivalents represented 5.8% of the total portfolio.

Market Cap Distribution (% of total portfolio equities)

\$ in billions	Fund	RMCV ¹
21.0+	18.6	26.5
14.5–21.0	22.5	18.9
10.5–14.5	11.0	14.6
6.5–10.5	17.5	19.3
0–6.5	30.4	20.6
TOTAL	100.0%	100.0%

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

Team Leadership (Pictured left to right)



Portfolio Managers	Years of Investment Experience
James C. Kieffer, CFA	30
Thomas A. Reynolds IV	20
Daniel L. Kane, CFA	21
Craig Inman, 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 Aug 2019: Fluor Corp 0.6%; Thor Industries Inc 2.3%. 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.

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