



# Artisan Mid Cap Value Fund

MONTHLY  
Commentary

Investor Class: ARTQX | Advisor Class: APDQX

As of 31 December 2019

## Commentary

Equity markets delivered stellar returns in 2019, with the S&P 500® Index up 28.5%. Compare that to the 90-year average annual return of 9.8%, and given that strength, you probably wouldn't care too much that only two stocks—Apple and Microsoft—accounted for 15.0% of the index's annual performance.

The Russell Midcap® Value Index gained 636bps in the fourth quarter to finish the year up 27.1%, led by contributions from the financials and industrials sectors. Only two sectors in the index—real estate and utilities—posted negative total returns. Our portfolio's relative underweights in these sectors (zero weighting in utilities) were the top-contributing factors to relative returns. However, our portfolio trailed the index in Q4 as materials and consumer discretionary lagged the benchmark on a relative basis.

Thor, a recreational vehicle manufacturer, returned 32.7% and was the top contributor to the portfolio in Q4. While the stock rose as industry shipment volumes normalized and the company's gross margin improved in Q3, the market is also starting to appreciate the potential inherent in the Erwin Hymer acquisition, completed in February 2019. Over the last 18 months, investors have stared down an inventory bubble, uncertainty surrounding a large European acquisition and rising leverage. These are all factors we view as temporary, and the market's concerns created the opportunity to own a stake in this industry-leading business with strong ROC, consistent free cash flow and sensible capital allocation. Steady debt paydown, an increased dividend and insider share purchases have given credibility to the long-term strategic goals laid out by management at their recent investor day. Earlier in the quarter, we added shares on weakness. Other top contributors in Q4 included Air Lease Corp and NetApp Inc.

Online travel agent Expedia was our top detractor in Q4, down 19.3%. Management's execution in the most recent quarter was poor as cost increases outpaced revenue growth. Weak recent performance led the board of directors to fire the CEO and CFO, further exacerbating investor concerns already heightened from the poor quarterly results. Before these C-suite changes, management had guided to slower growth in 2020. Despite these setbacks, the moat around the business remains wide as Expedia is one of two globally scaled online travel agent companies. This scale remains on display as key operating metrics like revenue growth and room nights booked are growing organically at double-digit rates. Expedia's business is also well-financed and cash generative even in a depressed state, allowing time for the board to be thoughtful about how to fix execution issues and who should lead the company. While the weak performance and leadership uncertainty are not ideal, we believe Expedia remains an undervalued business with a bright future.

AMERCO, the parent company of U-Haul, was among our top Q4 detractors. After peaking at the highest levels since 2016, the stock nose-dived in November but rallied into year end, bringing the Q4 total return to -3.5%. With such strong performance in October, expectations were high, but earnings disappointed and the market re-rated the stock. Though revenue growth was a little weak and earnings were flat, we believe overall results were positive. Additionally, self-storage room rental is gaining ground and impressed in Q3. The company owns and operates the largest fleet of rental trucks for the DIY mover and has an unmatched network of locations that provides a competitive advantage. It also owns and operates a self-storage business that has a large development pipeline which looks undervalued by the market. We think AMERCO is a quality business with an attractive long-term outlook due to the compounding of book value from its large-scale advantages.

## Portfolio Details

	ARTQX	APDQX
Net Asset Value (NAV)	\$18.86	\$18.80
Inception	28 Mar 2001	1 Apr 2015
Expense Ratios		
Annual Report 30 Sep 2019	1.20%	1.06%
Prospectus 30 Sep 2018 <sup>1</sup>	1.20%	1.05%

<sup>1</sup>See prospectus for further details.

## Top 10 Holdings (% of total portfolio)

Celanese Corp (Materials)	3.9
Thor Industries Inc (Consumer Discretionary)	3.6
Air Lease Corp (Industrials)	3.6
Globe Life Inc (Financials)	3.3
AutoNation Inc (Consumer Discretionary)	3.2
Analog Devices Inc (Information Technology)	3.2
Arch Capital Group Ltd (Financials)	3.2
The Kroger Co (Consumer Staples)	3.0
GCI Liberty Inc (Communication Services)	2.9
Gentex Corp (Consumer Discretionary)	2.9
<b>TOTAL</b>	<b>32.9%</b>

Source: Artisan Partners/GICS.

## Sector Diversification (% of total portfolio equities)

	Fund	RMCV <sup>1</sup>
Communication Services	12.8	3.9
Consumer Discretionary	15.6	9.1
Consumer Staples	3.1	4.7
Energy	1.8	5.7
Financials	29.4	18.4
Health Care	4.1	6.9
Industrials	12.5	11.8
Information Technology	7.2	7.6
Materials	8.0	6.7
Real Estate	5.5	14.0
Utilities	0.0	11.2
<b>TOTAL</b>	<b>100.0%</b>	<b>100.0%</b>

Source: Artisan Partners/GICS/Russell. Cash and cash equivalents represented 2.7% of the total portfolio. <sup>1</sup>Russell Midcap® Value Index.

## Investment Results (%)

As of 31 December 2019	Average Annual Total Returns							
	MTD	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception
Investor Class: ARTQX	2.84	5.63	23.53	23.53	6.25	5.77	9.48	9.96
Advisor Class: APDQX	2.84	5.69	23.71	23.71	6.40	5.90	9.55	10.00
Russell Midcap® Value Index	3.04	6.36	27.06	27.06	8.10	7.62	12.41	9.93
Russell Midcap® Index	2.29	7.06	30.54	30.54	12.06	9.33	13.19	9.87

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>
24.2+	13.3	20.8
16.7–24.2	21.8	20.6
11.2–16.7	18.5	19.2
6.9–11.2	20.4	20.0
0–6.9	26.0	19.3
<b>TOTAL</b>	<b>100.0%</b>	<b>100.0%</b>

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

## Team Leadership (Pictured left to right)



Portfolio Managers	Years of Investment Experience
James C. Kieffer, CFA	30
Thomas A. Reynolds IV	21
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. S&P 500® Index measures the performance of 500 US companies focused on the large-cap sector of the market. 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 Dec 2019: AMERCO 2.6%; Expedia Group Inc 2.3%; NetApp Inc 1.8%. 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. **Book Value** is the net asset value of a company, calculated by total assets minus intangible assets and liabilities. **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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