



Artisan Mid Cap Value Fund

MONTHLY
Commentary

Investor Class: ARTQX | Advisor Class: APDQX

As of 31 March 2019

Commentary

After stocks cratered in the last weeks of 2018, equity markets almost fully recovered by March, ending the best quarter of price appreciation since 2009 for the S&P 500® Index. Overall, technology stocks led the way, and the bias was toward smaller cap names beating larger cap names.

The Russell Midcap® Value Index rallied through the first half of the quarter but was flat in the second half, finishing up over 14% for the whole period. In the index, the information technology and energy sectors were top performers, while communication services and consumer staples lagged.

When it comes to relative returns, what a portfolio doesn't hold can be just as important as what it does. For example, not owning any names in the utilities sector was the top contributor to our relative performance in the first quarter. However, our portfolio trailed the index QTD due mostly to sector exposures, but also to a couple of underperforming stock selections.

Television and online retailer Qurate was the largest QTD detractor from relative returns. After rallying with the market in January, the stock traded flat until the last couple days of February; then it continued falling in March. Weighing broadly on investor sentiment were both a worse-than-expected earnings report and a growing realization that management plans to engage more aggressively than was anticipated in digital platform retailing. Unlike the successful TV and telephone model of QVC's past, this transition would likely cut into margins—customer acquisition is expensive and pricing power on the Internet is generally weaker.

The roadmap for the *Restock Kroger* initiative may be faltering as investors pushed down the stock 10% on fears that management's turnaround plan will take longer than anticipated or simply prove unsuccessful. Consequently, Kroger was a top detractor from Q1 performance. The bulk of the weakness came over a two-day span in early March when it appeared that management was getting further, rather than closer, to fulfilling 2018's promise of \$400 million in incremental operating profit growth and \$6.5 billion in cumulative cash flow by 2020. Year-over-year earnings growth has softened and gross margins compressed in the fourth quarter of 2018. However, we believe the earnings weakness is a near-term event, resulting from investments in the supply chain and pricing that should ultimately help the company accelerate back toward its goals. We remain keenly aware of how critical management's execution of this initiative is to the stock's success and are therefore monitoring developments closely.

A top contributor, consumer financial services company Synchrony Financial, has benefited from its contract renewals with major partners (e.g., Sam's Club, Amazon, Qurate, eBay and Walgreens). Additionally, share prices have appreciated based on expectations of hearty stock repurchases—approximately \$5bn—over the next 18 months. Adding to this momentum are a solid balance sheet, still-improving credit metrics and a record of profitability. Synchrony's low valuation, healthy business fundamentals and strong capital return have been favorable for the stock price QTD.

Portfolio Details

	ARTQX	APDQX
Net Asset Value (NAV)	\$18.97	\$18.91
Inception	28 Mar 2001	1 Apr 2015
Expense Ratios		
Annual Report 30 Sep 2018	1.19%	1.05%
Prospectus 30 Sep 2018 ¹	1.20%	1.05%

¹See prospectus for further details.

Top 10 Holdings (% of total portfolio)

Celanese Corp (Materials)	3.5
Analog Devices Inc (Information Technology)	3.0
AMERCO (Industrials)	2.8
Air Lease Corp (Industrials)	2.8
Torchmark Corp (Financials)	2.8
M&T Bank Corp (Financials)	2.8
The Kroger Co (Consumer Staples)	2.8
DENTSPLY SIRONA Inc (Health Care)	2.7
Arch Capital Group Ltd (Financials)	2.6
IAC/InterActiveCorp (Communication Services)	2.6
TOTAL	28.3%

Source: Artisan Partners/FactSet (GICS).

Sector Diversification (% of total portfolio equities)

	Fund	RMCV ¹
Communication Services	13.9	3.1
Consumer Discretionary	12.8	8.7
Consumer Staples	3.0	5.0
Energy	5.3	6.1
Financials	26.8	17.1
Health Care	4.8	7.1
Industrials	15.4	12.1
Information Technology	6.5	8.9
Materials	8.0	6.0
Real Estate	3.5	14.5
Utilities	0.0	11.4
TOTAL	100.0%	100.0%

Source: Artisan Partners/FactSet (GICS)/Russell. Cash and cash equivalents represented 6.4% of the total portfolio. ¹Russell Midcap® Value Index.

Investment Results (%)

As of 31 March 2019	Average Annual Total Returns							
	MTD	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception
Investor Class: ARTQX	-2.32	11.98	11.98	-0.86	7.84	3.66	12.98	9.80
Advisor Class: APDQX	-2.37	11.96	11.96	-0.75	7.96	3.76	13.03	9.83
Russell Midcap® Value Index	0.50	14.37	14.37	2.89	9.50	7.22	16.39	9.72
Russell Midcap® Index	0.86	16.54	16.54	6.47	11.82	8.81	16.88	9.61

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 ¹
21.0+	19.1	25.0
14.5–21.0	19.7	19.7
10.5–14.5	14.5	18.3
6.5–10.5	14.2	18.2
0–6.5	32.5	18.8
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	20
Craig Inman, CFA	19

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 Mar 2019: Qurate Retail Inc 1.1%; Synchrony Financial 2.4%. 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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