



# Artisan Mid Cap Value Fund

MONTHLY  
Commentary

Investor Class: ARTQX | Advisor Class: APDQX

As of 31 March 2020

## Commentary

In a quarter that included a breakneck equity market correction and record-setting single-day price moves—both up and down—the Russell Midcap® Value Index fell 31.71%. No sector was spared. Energy, the index's worst performing sector, fell to deep-water oil well depths, down 62.75% as crude oil prices hit 17-year lows amid a Russo-Saudi price war and collapsing demand for refined products.

Shelter-in-place orders and social distancing protocols, the best weapons we currently have against the COVID-19 pandemic, are simultaneously crippling economic demand and supply. Traditional consumer behaviors are being upended, but the market is still reacting as we might expect in any run-of-the-mill recession: Cyclical are underperforming non-cyclical. The consumer discretionary sector was among the worst performers in the index, as were financials. Defensive sectors—utilities, health care, consumer staples—were top performers.

We are highlighting the macro and sector-level activity because this selloff, fueled by deep uncertainty about the pandemic's true threat, was broad-based and intense. In our view, the market did little to discriminate among individual firms, preferring to re-rate sectors given the short timeframe, rapid price action and lack of information. Our portfolio underperformed the benchmark—almost entirely the result of sector allocations.

We're stock pickers, and sector allocations are the byproduct of our fundamental research and rigorous stock-selection process. Sometimes this works against us—as it notably did in Q1. For example, we have regularly and diligently explored opportunities in public utilities. Yet, none have met our margin of safety criteria, and we hold a zero weighting in this sector, the index's best performing sector. This detracted from relative returns. Sometimes, our bottom-up approach works for us when it comes to sector allocations, as it did by being underweight energy. Despite their best intentions of trying to live within their cash flow means, industry fundamentals before the recent selloff were weak. We continued our multi-quarter journey of reallocating capital to businesses with more control over their destinies.

At the holdings level, our top detractors were RV manufacturer Thor Industries, consumer financial services provider Synchrony Financial and airplane leasing firm Air Lease Corp. Each of these has a wide moat in its respective industry, a strong balance sheet, steady shareholder-friendly management and an undemanding valuation based on normalized earnings power. Among our top contributors is Equity Commonwealth, a REIT with commercial office properties throughout the US. We like the company's management team, which has a history of creating shareholder value and maintains a large stockpile of cash, enabling it to opportunistically deploy capital.

## Investment Results (%)

As of 31 March 2020	Average Annual Total Returns							
	MTD	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception
Investor Class: ARTQX	-25.20	-34.84	-34.84	-28.12	-8.72	-3.30	4.57	7.38
Advisor Class: APDQX	-25.17	-34.84	-34.84	-28.00	-8.60	-3.18	4.63	7.41
Russell Midcap® Value Index	-22.70	-31.71	-31.71	-24.13	-5.97	-0.76	7.22	7.61
Russell Midcap® Index	-19.49	-27.07	-27.07	-18.31	-0.81	1.85	8.77	7.93

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)	\$12.29	\$12.25
Inception	28 Mar 2001	1 Apr 2015
Expense Ratios		
Annual Report 30 Sep 2019	1.20%	1.06%
Prospectus 30 Sep 2019 <sup>1</sup>	1.21%	1.07%

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

## Top 10 Holdings (% of total portfolio)

Analog Devices Inc (Information Technology)	3.7
Globe Life Inc (Financials)	3.4
Gentex Corp (Consumer Discretionary)	3.4
Thor Industries Inc (Consumer Discretionary)	3.3
Arch Capital Group Ltd (Financials)	3.2
AMERCO (Industrials)	3.1
IAC/InterActiveCorp (Communication Services)	2.9
The Progressive Corp (Financials)	2.9
Air Lease Corp (Industrials)	2.8
DENTSPLY SIRONA Inc (Health Care)	2.8
<b>TOTAL</b>	<b>31.5%</b>

Source: Artisan Partners/GICS.

## Sector Diversification (% of total portfolio equities)

	Fund	RMCV <sup>1</sup>
Communication Services	10.5	4.0
Consumer Discretionary	20.0	7.5
Consumer Staples	4.2	5.6
Energy	0.5	3.1
Financials	28.2	16.7
Health Care	5.3	8.3
Industrials	11.2	12.0
Information Technology	7.6	8.0
Materials	6.8	7.1
Real Estate	5.7	14.1
Utilities	0.0	13.6
<b>TOTAL</b>	<b>100.0%</b>	<b>100.0%</b>

Source: Artisan Partners/GICS/Russell. Cash and cash equivalents represented 2.4% 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>
24.2+	11.2	8.2
16.7–24.2	8.7	17.7
11.2–16.7	14.7	21.5
6.9–11.2	21.4	20.5
0–6.9	44.0	32.0
<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	31
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 Mar 2020: Equity Commonwealth 1.3%; Synchrony Financial 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.

**Margin of Safety**, a concept developed by Benjamin Graham, is the difference between the market price and the estimated intrinsic value of a business. A large margin of safety may help guard against permanent capital loss and improve the probability of capital appreciation. Margin of safety does not prevent market loss—all investments contain risk and may lose value. **Normalized Earnings** are earnings that are adjusted for the cyclical ups and downs over a business cycle.

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