Artisan Mid Cap Value Fund

QUARTERLY
Commentary

Investor Class: ARTQX | Advisor Class: APDQX

As of 31 December 2016

Investment Process

We seek to invest in companies that are undervalued, in solid financial condition and have attractive business economics. We believe that companies with these characteristics are less likely to experience eroding values over the long term.

Attractive Valuation

We value a business using what we believe are reasonable expectations for the long-term earnings power and capitalization rates of that business. This results in a range of values for the company that we believe would be reasonable. We generally will purchase a security if the stock price falls below or toward the lower end of that range.

Sound Financial Condition

We prefer companies with an acceptable level of debt and positive cash flow. At a minimum, we seek to avoid companies that have so much debt that management may be unable to make decisions that would be in the best interest of the companies' shareholders.

Attractive Business Economics

We favor cash-producing businesses that we believe are capable of earning acceptable returns on capital over the company's business cycle.

Team Overview

Our team has worked together for a long time and each member has a high level of trust and confidence in each other's capabilities. Everyone on the team functions as a generalist with respect to investment research and the entire team works together on considering potential investments. The portfolio managers are supported by two research analysts who share a common mindset and focus on the key elements of our investment process.

Portfolio Management

James C. Kieffer, CFA
Portfolio Manager

George O. Sertl, CFA
Portfolio Manager

Daniel L. Kane, CFA
Portfolio Manager

Investment Results (%)

As of 31 December 2016	QTD[1]	YTD[1]	Average Annual Total Returns 1 Yr	3 Yr	5 Yr	10 Yr	Inception[2]
Investor Class: ARTQX	**7.26**	**22.47**	**22.47**	**3.86**	**11.13**	**7.78**	**10.68**
Advisor Class: APDQX	**7.34**	**22.60**	**22.60**	**3.94**	**11.18**	**7.80**	**10.70**
Russell Midcap® Value Index	5.52	20.00	20.00	9.45	15.70	7.59	10.28
Russell Midcap® Index	3.21	13.80	13.80	7.92	14.72	7.86	9.46

Source: Artisan Partners/Russell. [1]Returns for periods less than one year are not annualized. [2]Investor Class inception: 28 March 2001. Advisor Class performance is that of the Investor Class from 28 March 2001 through the inception of the Advisor Class on 1 April 2015, and actual Advisor Class performance thereafter. Performance has not been adjusted to reflect the expenses of the Advisor Class for the period prior to the Class's inception, and Advisor Class performance results would differ if such expenses were reflected.

Expense Ratios (% Gross/Net)	ARTQX	APDQX
Annual Report 30 Sep 2016	1.16/—	1.06/1.05[1]
Prospectus 30 Sep 2015	1.19/—	1.05[2]/—

[1]Net expenses reflect the voluntary waiver of a portion of the adviser's management fee. [2]Includes estimated expenses for the current fiscal year.

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. Performance may reflect agreements to limit a Fund's expenses, which would reduce performance if not in effect.

Investing Environment

US stocks advanced across the market-cap spectrum in Q4, finishing 2016 with meaningful gains. The sharp post-election rally was enough to erase a negative start to the quarter as investors weighed the potential for tax reform and deregulation to bolster economic growth. Gold prices fell following the election, but remain ahead in the year. Undeterred by political uncertainty, M&A activity saw an uptick, with several large deals announced. The US Federal Reserve raised its benchmark interest rate a quarter point, citing steady employment growth among other economic measures. Oil prices advanced on news OPEC voted to implement its first production cut in eight years.

In a reversal of 2015, value stocks bested growth stocks in 2016, and small-cap stocks outpaced both mid- and large-cap stocks. Looking at Q4, the Russell Midcap® Value Index trailed the Russell 1000® Value and Russell 2000® Value Indices. On a sector level, financials was a standout, driven by post-election strength in bank stocks. Materials, industrials and energy outperformed, while health care, consumer staples and real estate lagged.

Performance Discussion

Our portfolio outperformed the Russell Midcap® Value Index in Q4 and 2016. Areas of the market that previously had been unloved for some time seemed to find their footing in 2016, as the strong momentum factors that had been a headwind to good quality but deeply discounted companies over the last few years abated—at least in the near term.

Our below-benchmark positioning to real estate, health care, utilities and consumer staples was a tailwind to relative performance in Q4 and 2016. Our exposure to these areas has not been driven by any top-down, macro views. Rather, it's derivative of our approach. Through the challenging market environment over the past few years, our approach has led us away from these perceived safe areas of the market, as valuations appeared stretched.

Following that same vein, a number of our more global cyclical holdings (energy, industrials, materials) were standout performers this year. Energy exploration and production companies Devon, Apache, and Hess rebounded following a weak start to the year, finishing 2016 with strong returns. As the stocks dipped with commodity prices in Q1 2016, we built on our positions. In our view, the price of oil was unsustainable—but markets can be irrational for much longer than most suspect. We believed these quality companies were positioned well to make it to the other side of the downturn, even if it lasted a while longer. As fundamental supply and demand pressures in oil markets showed signs of rebalancing, oil prices rebounded, boosting our holdings. Shares advanced further on news of OPEC's production cut agreement. Our conviction in these names remains—we believe the equities are still pricing in the lower end of our normalized oil price range.

Strong stock selection in the information technology sector aided results in Q4, with shares of Avnet and Arrow Electronics among our top performers. Shares of Avnet rebounded in part due to the sale of its Technology Solutions business for a nice premium to book value. Both Avnet and Arrow Electronics are IT distributors with European exposure, whose results are largely a function of global IT spending. Shares rallied post-election on the possibility of tax reforms freeing up overseas cash. Further, secular tailwinds such as increasing "Internet of Things" solutions have been beneficial, and we believe both companies are executing well on strategic initiatives. We trimmed both of these positions on strength.

Industrials sector holdings Air Lease System was a source of strength in Q4 and 2016. Similar to our energy holdings, we were able to selectively add to our position during the year on stock price dips. Shares of the global aircraft leasing company have taken off in part on news of acquisitions in the industry at premiums to book value, while shares of Air Lease traded at a discount to book value. The valuation gap has closed a bit with Air Lease's strong performance, but we continue to believe it's one of the best operators in the leasing space with one of the best management teams. As the industry enters a replacement cycle, we believe Air Lease's newer fleet inventory, experience in the industry, and conservatively run management style will be beneficial.

A number of key contributors stemmed from the financials sector, including Allied World Assurance. Shares of the property and casualty insurer advanced on acquisition news, as the company agreed to be acquired by Fairfax Financial at about an 18% premium. The name is a good example of our long-term investment horizon, as we've held the stock since its IPO in 2006. Over that period, the name meaningfully outperformed the market. We like the company's diversified business mix, free cash flow generative capabilities and shareholder friendly initiatives.

Our bank holdings—Fifth Third Bancorp and M&T Bank—advanced along with bank stocks, aiding performance. Investor expectations for softened regulations, more economical deployment of excess capital, and rising interest rates lifted shares.

Materials holding Celanese also aided results. The company is a globally integrated producer of chemicals and advanced materials. The stock had been under pressure due to its exposure to low oil prices, and we used the selloff to build on our position in Q2 and Q3 2016. We think its management team is one of the best in the industry, and its balance sheet is solid. Additionally, it generates ample free cash flow, which it returns to shareholders through dividends and share repurchases.

Turning to areas that worked against us, our financials holdings were up in absolute terms, though they weighed on relative results. Our financials holdings are more heavily anchored in insurance, which did not fare as well as banks in the quarter (where our below-benchmark positioning was a headwind). Our consumer discretionary exposure worked against us, largely due to weakness in News Corp.

News Corp is a diversified media company, whose assets include the *Wall Street Journal*, Harper Collins book publishing and Fox Sports Australia. The company is often thought of as the "old media" spinoff of parent company Twenty-First Century Fox, and investors have punished shares on weakness in the newspaper industry. We acknowledge the fears—they are what initially allowed us to establish our position—but we'd note that the newspaper segment is a small portion of News Corp's business. The company has a diverse asset base, strong balance sheet, and is a solid generator of free cash flow.

Further, shares trade at an undemanding valuation at a large discount to our estimate of the sum-of-the-parts.

Goldminers Goldcorp and Kinross Gold weighed on results in Q4 as the stocks tumbled with gold prices following the US election. Even with the pullback in the quarter the names remain ahead in 2016. We still believe the long-term price of gold will move higher, subsequently benefiting our holdings.

Shares of American Capital Agency, a mortgage real estate investment trust (REIT), were weak. The interest rate environment has been a headwind—any time there's movement in interest rates it causes tension for mortgage REITs as they need to reposition their portfolios. American Capital Agency took a bigger hit on book value than investors expected, pressuring shares. Despite the tough operating environment, we believe AGNC has an attractive return profile, solid management team, and trades at an attractive valuation.

Portfolio Activity

It was a fairly quiet quarter in terms of portfolio activity—we exited four names and initiated two new holdings. New positions included Tesoro Corp, one of the leading refiners in the US. We've had our eyes on the company for some time, but have held off as the stock has historically traded at a premium to peers due to its dominant position in west coast markets of the US refining network. Tesoro recently announced the acquisition of Western Refining, a smaller refinery with a presence in Western Texas and New Mexico, which we believe is poised to benefit from the upcoming production boom in the Delaware Basin. Refiners in general have suffered of late due to prolonged low oil prices and excess inventories of refined products, lowering valuations for the whole group and allowing us to establish a position.

We initiated a position in Jones Lang LaSalle (JLL), the number two commercial real estate broker and property services firm. While JLL is categorized as a real estate stock, we'd emphasize that it's not providing real estate but rather services. We believe the company's increasing scale vs its fragmented peers is developing into a sustainable competitive advantage, with increasing barriers to competition that are built on global scale, market knowledge, and broader service offerings. In our view, this advantage is benefiting from a positive feedback loop, where increasing size leads to superior commercial real estate market knowledge and ability to deploy services, which in turn attracts more clients, resulting in sustainable organic market-share gains that only increase the advantage further.

We exited our positions in steel manufacturer Nucor and contract drilling service provider Helmerich & Payne on success as shares hit our estimates of fair value. We initiated both positions in Q1 2015 as commodity-exposed businesses were among the few areas we were able to find undervalued shares in a market in which most stocks looked fairly valued. Commodity prices have since rebounded nicely, boosting shares of Nucor and Helmerich & Payne into our target price range.

We moved on from our position in Quanta Services. The company provides contracting services, offering infrastructure solutions to the electric power, natural gas and oil pipeline industries. Quanta Services has been challenged from a spending perspective, as utilities have been less willing to spend money on larger projects. We grew concerned over a time-extension risk to our base case and exited our position.

Shares of Kennametal, a global supplier of metal cutting tooling, have been rebounding off January lows. We feel management has taken the right steps to right-size and streamline operations, and capex spending curtailments have started to turn off. We felt valuations had become stretched and exited in favor of names we believe have more upside potential.

Perspective

While we are pleased with our strong absolute and relative returns in 2016, we'd be remiss to look at them in a vacuum. You've heard us use the Herb Stein quote, "If something cannot go on forever, it will stop," numerous times over the past few years as we felt momentum factors in the market were working against us. In 2016, a number of those factors that had been a headwind on performance either reversed or abated, serving instead as a tailwind to performance.

With that said, we'd note that our portfolio positioning is an active decision based on our bottom-up investment approach. We stayed true to our philosophy and process the past few years despite the challenging market environment, building a portfolio that looks significantly different from the index. As there was a big push into "safer," less cyclical names, shares with momentum behind them continued to do well. Money flowed out of the more cyclical areas, widening valuation spreads. We felt valuations in these perceived-stable areas of the market had gone too far, and that there was bound to be some sort of regression. Instead of chasing momentum, we went toward fear and uncertainty—as we always do—investing in stocks that had lived through a massive bear market as the broader market hit new highs. It is our belief that valuations, business strength and financial condition ultimately matter, much more than any sentiment swings.

As sentiment seemed to reverse in 2016, we began to see pockets of opportunity open up in the market. And while the less cyclical names still don't appear cheap, the valuation gap between cyclicals and non-cyclicals has been reduced. However, it's important to note that stocks were generally positive across the board, with fewer significant areas of pain and suffering in the market. Cyclical names were strong in absolute terms, while weakness in non-cyclical names came largely on a relative basis.

We will continue to focus on what we can control, aiming to put the business, balance sheet and valuation on our side. We believe that by investing in companies that meet our three margin of safety criteria—i.e. cash producing businesses in strong financial condition that are selling at undemanding valuations—we will continue to tilt the risk/reward in our favor over the long term.

For more information: Visit www.artisanpartners.com | Call 800.344.1770

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.

This summary represents the views of the portfolio managers as of 31 Dec 2016. Those views may change, and the Fund disclaims any obligation to advise investors of such changes. For the purpose of determining the Fund's holdings, securities of the same issuer are aggregated to determine the weight in the Fund. The holdings mentioned above comprise the following percentages of the Mid Cap Value Fund's total net assets as of 31 Dec 2016: Devon Energy Corp 3.9%; Air Lease Corp 3.4%; Apache Corp 3.1%; Hess Corp 2.8%; Arrow Electronics Inc 2.6%; Avnet Inc 2.6%; Celanese Corp 2.6%; Fifth Third Bancorp 2.5%; M&T Bank Corp 2.2%; Goldcorp Inc 2.1%; Allied World Assurance Co Holdings AG 2.0%; Tesoro Corp 1.7%; News Corp 1.5%; AGNC Investment Corp 1.4%; Kinross Gold Corp 1.3%; Jones Lang LaSalle Inc 0.8%. Securities named in the Commentary, but not listed here are not held in the Fund as of the date of this report. Portfolio holdings are subject to change without notice and are not intended as recommendations of individual securities. All information in this report, unless otherwise indicated, includes all classes of shares (except performance and expense ratio information) and is as of the date shown in the upper right hand corner. This material does not constitute investment advice.

Attribution is used to evaluate the investment management decisions which affected the portfolio's performance when compared to a benchmark index. Attribution is not exact, but should be considered an approximation of the relative contribution of each of the factors considered.

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Book Value is the net asset value of a company, calculated by total assets minus intangible assets and liabilities. **Free Cash Flow** is a measure of financial performance calculated as operating cash flow minus capital expenditures.

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