Artisan Mid Cap Value Fund

QUARTERLY
Commentary

Investor Class: ARTQX | Advisor Class: APDQX

As of 30 June 2017

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 30 June 2017	QTD[1]	YTD[1]	Average Annual Total Returns 1 Yr	3 Yr	5 Yr	10 Yr	Inception[2]
Investor Class: ARTQX	**1.26**	**4.07**	**16.24**	**3.69**	**11.33**	**6.94**	**10.61**
Advisor Class: APDQX	**1.31**	**4.13**	**16.34**	**3.78**	**11.39**	**6.97**	**10.63**
Russell Midcap® Value Index	1.37	5.18	15.93	7.46	15.14	7.23	10.29
Russell Midcap® Index	2.70	7.99	16.48	7.69	14.72	7.67	9.68

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	ARTQX	APDQX
Semi-Annual Report 31 Mar 2017[1]	1.19	1.06
Prospectus 30 Sep 2016[2]	1.16	1.06

[1]Unaudited, annualized for the six month period. [2]See prospectus for more information.

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 Overview

Markets continued to rally in Q2, with US stock returns up across the market-cap spectrum, capping off a strong first half of the year. Growth stocks sustained their outperformance over value stocks, meaningfully outperforming in Q2 and YTD. Volatility remained subdued and valuations appeared broadly stretched. A slew of positive earnings results helped support stocks, offsetting fading expectations for fast action on tax reform and infrastructure spending as well as a regulatory overhaul.

Oil prices reached YTD lows in June, as sentiment turned negative on investor worries that the market could take longer than expected to balance. Toward the end of 2016, OPEC jammed production and pulled down inventories, meaning the production cut didn't effectively start until March, rather than the first of the year. From March to now, inventories globally have fallen, but not as much as expected. There's concern that some of the off-line countries (namely Libya, Nigeria and Venezuela) will be able to sustain a snap-back in production. Further, though in our view the market is currently undersupplied, there's general concern whenever oil gets into the $50s that US shale will instantly turn on, resulting in oversupply. In our view, the fundamentals haven't changed, and current prices do not encourage sufficient investment to provide enough future supply to meet growing demand.

Given the oil price dip, on a sector level, energy was a notable market laggard. Materials also underperformed, weighed down by weakness in metals and mining. Conversely, the health care, consumer discretionary and information technology sectors outperformed.

Performance Discussion

Our portfolio performed roughly in line with the Russell Midcap® Value Index in Q2. Strength stemmed primarily from our consumer discretionary holdings. In fact, four of our top five contributors in the quarter were consumer-exposed holdings: InterActiveCorp (IAC), H&R Block, Liberty Interactive QVC and Liberty Ventures.

Although technically classified as a technology name, we consider IAC more of a consumer holding, operating sites such as HomeAdvisor, Match and Tinder. The company recently announced a deal to combine HomeAdvisor with Angie's List—the two largest players in the digital home-services space—into a new standalone company. IAC has a history of successfully building online marketplace businesses, and we believe it faces a compelling opportunity as about 90% of the $400 billion US home-services market remains offline. In our view, IAC's businesses appear cheap on a sum-of-the parts basis, it has a healthy cash position, and it has a best-in-class management team.

Tax-preparer H&R Block was a top performer as revenues came in better than expected and good cost controls have led to strong earnings. We've held the name since 2009, attracted to its strong market-share position and repeatable business model. It has a healthy balance sheet and generates ample cash, with much of it allocated to dividends and share repurchases. We used strength to trim our position.

Shares of Liberty Interactive QVC and Liberty Ventures rallied as Liberty Ventures announced the acquisition of Alaskan cable and wireless firm General Communications, forming GCI Liberty. We believe the acquisition and subsequent reshuffling of assets at Liberty Ventures increase the likelihood that the company will ultimately merge or trade assets with Charter Communications, of which Liberty Ventures owns a large stake. Further, part of the deal transitions Liberty Ventures and Liberty Interactive QVC from tracking stocks to asset-backed securities. In our view, the complicated tracking-stock structure of the stocks was a headwind on multiples, and the transition provides better visibility.

At Liberty Interactive QVC, results suggest early signs that the turnaround story may be taking hold. After the quarter, the company announced it would acquire the remaining portion of the Home Shopping Network (HSNI) it did not already own, a move we have long anticipated and view favorably.

On an absolute basis, our energy holdings detracted, weighing on results. However, on a relative basis, our overall exposure to energy was effectively neutral in Q2, as our two non-E&P energy names (Tesoro and World Fuel Services) posted positive results, helping offset the declines in our E&P names. Tesoro was among our top performers as the company recently completed its acquisition of Western Refining, a smaller refinery with a presence in West Texas and New Mexico, which we believe is poised to benefit from the pending production boom in the Delaware Basin. In our view, Tesoro is a best-in-class player with a dominant position in West Coast markets of the US refining network.

Our E&Ps (Devon, Cimarex, Hess and Apache) were among our bottom performers. We believe their weakness was tied to general sector weakness, as opposed to any company-specific deterioration in fundamentals. As with all our energy-exposed holdings, we own what we believe are high-quality companies in an unloved area capable of delivering value by better weathering a sustained, weaker operating environment.

Construction and engineering company Fluor weighed on results, as the company has been under pressure due to the bankruptcy filing of Westinghouse, which was in the process of constructing two nuclear reactors for which Fluor is the general contractor. Shares were further pressured by disappointment in management's softer-than-anticipated forward guidance. The company has strung together a couple quarters of poor margins, project write-downs and disappointing backlog bookings. Despite the near-term headwinds, our long-term thesis remains intact. Fluor produces strong free cash flow, most of which is returned to shareholders through dividends and share repurchases. Its balance sheet is strong with a net cash position.

Shares of IT distributor Avnet were also weak. The company is facing tough pricing headwinds and the loss of some key suppliers. We think it's a decent business, and like its capability to generate free cash flow and solid return on capital. It recently sold its technology solutions business at a nice premium to book value, and we're pleased that it has shifted its focus to the division we believe has better long-term potential.

Portfolio Activity

We were fairly active in Q2—exiting five names and adding two. On the purchase side, we reestablished a position in Cimarex Energy. In our view, Cimarex is a high-quality company with an excellent balance sheet. We like the company's management team, which is very conservative and returns focused. Further, the company has attractive exposure to the Delaware Basin, South Central Oklahoma Oil Province (SCOOP) and Sooner Trend Anadarko Basin Canadian and Kingfisher Counties (STACK) plays.

New holding Cars.com came from a spin-off from our holding TENGA, and we further built on the position. The company's primary business is a listing service for auto dealers to market car dealership inventories to a fragmented customer base over the Internet and mobile devices—an attractive business model to us, as it allows a fragmented dealer base to efficiently reach a fragmented audience. Industry trends are also favorable as dealerships continue to shift marketing dollars from offline advertising (print, TV) to online solutions. Management is further improving its offering to dealers with new tools and features, which should drive customer engagement, enhancing its value as a marketing channel. The business has strong margins, recurring revenue, requires minimal capex and generates robust free cash flow. At the time of the spin-off, we estimated the stock was trading for around 10X EV/EBIT, which we believe is a compelling valuation given the characteristics of the business and its competitive positioning.

We built on our position in North American auto retailer AutoNation. The company's business came under pressure in 2016 for a number of reasons: industry incentives created margin pressures, the company reduced inventory to more reasonable levels, it reversed a "sell no car with an open recall" program, and it increased investment in branded stores and other growth projects. We believe the auto cycle has likely peaked, and we are valuing the company with an eye toward normalized results (as we always do). The company generates profits from four pools: new car sales, used car sales, finance and insurance, and parts and services (P&S). The P&S segment contributes a sizable portion of gross profit and is generally valuable and steady. We have a long-term time horizon, and we believe shares are pricing in enough of a discount to make valuations compelling. Further, we have faith in its management team, which thinks and acts like owners, with a goal of maximizing shareholder value.

Sales included motorcycle company Harley-Davidson. Our original opportunity to invest in the company came as intense competition from foreign competitors weighed on results and market share, pressuring share prices. While it's been a bumpy ride over our holding period, we'd recently been trimming our position on strength as the company has made progress taking back market share through investments in R&D and increasing the pace of innovation. The stock advanced on takeover rumors to a level above our estimates of normal value, which led us to exit our remaining position.

We sold our position in Keysight Technologies, a producer of electronic measurement equipment and software. The company recently executed a large M&A transaction, putting the balance sheet in a more precarious position. We had been trimming our position for some time on strength, and fully exited in the quarter as valuations hit our estimates of fair value.

Other sales included utilities holding OGE Energy and handbags and accessories company Coach. We had established our position in OGE Energy in Q3 2015 as the company's exposure to energy weighed on shares, dropping the stock more than its traditional, utility-only peers. Shares have since rallied to our target price range, and we exited our position on success. At Coach, the stock had been advancing this year as the company's turnaround story took shape, and then jumped on announced plans to acquire Kate Spade. We used the opportunity to exit our position.

We moved on from commercial real estate broker and property services firm Jones Lang LaSalle (JLL). We had initiated our position in Q4 2016, but were only able to get half of a low-end position as the stock quickly ran up. While we continue to like the business, we exited as valuations appeared fair, redeploying capital to what we view as more attractive long-term opportunities.

Perspective

There's a saying that any order has to go through disorder before it can experience reorder. Business doesn't move in a straight-line—it's often two steps forward, one step back. However, as we sit here today, over eight years into a bull market, markets have essentially gone straight up. Investors have been searching for stability and dividend yield because of the depressed interest-rate environment, and they've been prizing growth in an environment where there's been very little growth to be had.

We believe that chasing momentum, yield, or particular sectors of the economy in an attempt to chase the hot dot may work in the short term, but is not a long-term investment approach. Instead, our efforts are geared toward stacking the deck in our favor by finding companies we believe are better, safer and cheaper than those found in the index. We want to put the business on our side (attractive business economics), the balance sheet on our side (sound financial condition) and valuation on our side (attractive valuations). To do so, we employ a benchmark-agnostic, bottom-up investment approach.

In our view, any time you bring in the thought process of aiming to be overweight or underweight a particular sector in the benchmark, you're getting away from the key concept—is this or isn't this a good

investment? We are not going to add a security to the portfolio without its individual merit being the star point for why we're interested. The weight of the holding in the portfolio doesn't have to do with the index weighting; it has to do with the appeal of the name and how it stands up to our three margin of safety criteria. We want to place best ideas in the portfolio while being mindful of diversification. Said another way, we want to lean into areas of exposure where we see particular value, but we also want to ensure we don't take it so far as to turn the portfolio into a macro or top-down bet.

An important part of our process is about taking advantage of time horizon inefficiency, which is about stretching your time horizon. We believe there's a reward for not getting caught up in the short-term games, focusing instead on the business and the reality of what is happening to the fundamentals of the business. By stretching our time horizon and allowing the business to return to its normal level of performance, we believe we're playing a different game than folks who are caught up in all the short-term movements.

We believe we're in an interesting moment in the market—not only do we think there's embedded alpha potential in our portfolio (we say that because we essentially had a large number of holdings live through a bear market while a broader bull market was going on), but we think that what you don't own at this moment in the market is just as important. We see a large number of individual names that are selling at much higher valuations than normal. We think it's very important to be different from the index, as we believe one of the benefits that will result is a double dip in alpha.

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 30 Jun 2017. 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 30 Jun 2017: Devon Energy Corp 2.7%; AutoNation Inc 2.6%; IAC/InterActiveCorp 2.1%; Avnet Inc 2.1%; Tesoro Corp 2.0%; Cars.com Inc 1.8%; Fluor Corp 1.8%; Liberty Ventures 1.8%; World Fuel Services Corp 1.8%; H&R Block Inc 1.6%; Cimarex Energy Co 1.5%; TEGNA Inc 1.3%; Liberty Interactive Corp QVC Group 2.6%; Hess Corp 2.4%; Apache Corp 2.0%. 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.

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Book Value is the net asset value of a company, calculated by total assets minus intangible assets and liabilities. **Enterprise Value** is a measure of a company's value. **Earnings Before Interest & Tax (EBIT)** is an indicator of a company's profitability, calculated as revenue minus expenses, excluding tax and interest. **Free Cash Flow** is a measure of financial performance calculated as operating cash flow minus capital expenditures. **Return on Capital (ROC)** is a measure of how effectively a company uses the money (borrowed or owned) invested in its operations. **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.

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A R T I S A N  P A R T N E R S

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