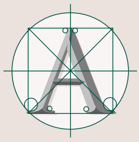


Artisan Value Fund

QUARTERLY Commentary

Investor Class: ARTLX | Advisor Class: APDLX | Institutional Class: APHLX

As of 31 March 2018

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.

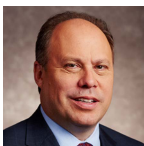
Attractive Business Economics

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

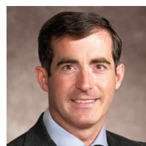
Team Overview

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



Thomas A. Reynolds IV
Portfolio Manager

Daniel L. Kane, CFA
Portfolio Manager

Investment Results (%)

			Average Annual Total Returns				
As of 31 March 2018	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception
Investor Class: ARTLX	**-4.67**	**-4.67**	**6.64**	**8.18**	**9.00**	**7.33**	**6.92**
Advisor Class: APDLX	**-4.62**	**-4.62**	**6.80**	**8.32**	**9.08**	**7.38**	**6.95**
Institutional Class: APHLX	**-4.61**	**-4.61**	**6.93**	**8.43**	**9.24**	**7.51**	**7.06**
Russell 1000® Value Index	-2.83	-2.83	6.95	7.88	10.78	7.78	6.83
Russell 1000® Index	-0.69	-0.69	13.98	10.39	13.17	9.61	8.42

Source: Artisan Partners/Russell. Returns for periods less than one year are not annualized. Class inception: Investor (27 March 2006); Advisor (1 April 2015); Institutional (26 July 2011). For the period prior to inception, each of Advisor Class and Institutional Class's performance is the Investor Class's return for that period ("Linked Performance"). Linked Performance has not been restated to reflect expenses of the Advisor or Institutional Class and each share's respective returns during that period would be different if such expenses were reflected.

Expense Ratios	ARTLX	APDLX	APHLX
Annual Report 30 Sep 2017	1.01	0.85	0.80
Prospectus 30 Sep 2017[1]	1.01	0.85	0.80

[1]See prospectus for further details.

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.

Investing Environment

US equities were especially volatile in Q1, a dramatic turnabout from 2017 when markets were historically quiescent. Stocks ran higher in the early weeks of the year as markets began to embed the tax reform impact on earnings and the ability of companies to step-up capex and return of capital to shareholders. A selloff began in late January due to higher-than-anticipated inflation, bond market concerns and historically high stock valuations (the result of share prices appreciating faster than underlying cash flows during the bull market). Fear of missteps by a new Fed chair also played into the anxiety. Although concerns about potential inflationary pressures eased in March, markets proved vulnerable to headlines over trade wars, central bank tightening and controversies surrounding mega-cap tech names (i.e., FAANGs). In Q1, there were 22 days when the Russell 1000® Value Index gained or lost 1% or more, in contrast to just 9 for all of 2017.

Despite the volatility-inducing headlines, US economic and corporate fundamentals have been positive. Unemployment in the US is historically low and, though inflation has risen to some degree, secular disinflationary forces look intact. As anticipated, the Fed continued its path of gradual tightening with a rate hike in March. Conversely, other major central banks have kept monetary policy highly accommodative while attempting to prepare markets for eventual policy normalization.

Quarterly returns of the broad US indices were negative across the market-cap spectrum. Value lagged growth in Q1, a performance pattern that has continued since early 2017. In fact, during the past one-year period, the Russell 1000® Value Index has underperformed the Russell 1000® Growth Index by more than 1400 basis points—demonstrating desire for earnings growth in an environment that has been starved for growth for several years. Aside from technology, all other sectors declined in Q1. Real estate, telecom and consumer staples were weakest.

Performance Discussion

Our portfolio trailed the Russell 1000® Value Index in Q1. From a sector perspective, our financials holdings were the largest source of underperformance. Specifically, our bank stocks Wells Fargo (WFC) and Citigroup were weak. WFC's fundamentals and stock price have suffered due to governance and control issues plaguing the firm since 2016. Despite appointing new segment leaders, new board members and a new CEO, along with investing in governance and oversight structures, the Federal Reserve issued a consent order placing a cap on WFC's balance sheet growth. WFC must satisfy certain conditions related to shoring up its risk management, compliance and board governance before the cap will be lifted. While Wells Fargo has already submitted a plan for the Federal Reserve to review, we are not anticipating the asset-growth cap to be lifted until 2019. The consent order and lackluster earnings have caused the stock to languish. Valuation, capital strength and the long-term outlook are on our side, but we do take recent events seriously. Citigroup was down on trade war-related fears as it is more exposed internationally than other major banks. The stock had done very well last year, so some of its Q1 weakness was a retrace. For both WFC and Citigroup, we remain attracted to their strong balance sheets and focus on shareholders, as evidenced by healthy dividend yields and stock repurchase programs.

Other key Q1 detractors were Devon Energy, an energy exploration and production company, and Air Lease (AL), a global aircraft leasing company. Shares of Devon got caught up in the selloff that began in late January when the price of WTI crude oil fell 10% from $66 to below $60 over a two-week span. Company-specific drivers were also at play. Production at Devon came in below expectations, which, while disappointing, was largely timing related. Additionally, similar to most energy companies, the capex required to grow production has been higher than expected. The combination of lower-than-anticipated production, higher-than-expected capex needs and cautious guidance weighed on the stock. In our view, it is a high-quality energy name that has the financial strength to endure a low oil price environment. Its balance sheet is solid, and its diversified portfolio and minimal exposure to long-term service contracts provide it flexibility.

AL was another stock that was pressured by trade-war headlines. AL had a huge run in 2017, when it was one of our top contributors on the back of ongoing solid execution and healthy global air travel demand. In January and February—prior to trade-war rumblings—we were actively trimming our position. Even so, it is still one of our bigger positions as we believe AL is a best-in-class operator. We also like its management team, which founded the industry and has been through several business cycles. AL operates a conservative financial profile and focuses on creating long-term shareholder value.

Our top performers in Q1 included Cisco Systems, Cognizant Technology Solutions and Hess. Cisco is a leading provider of communications networking solutions. The stock was up on strong order growth, driven by its 9K switching platform. Although still a cyclical, product-driven company, Cisco is transitioning toward a recurring software-subscription model, which offers higher customer lifetime value and greater cash flow stability. While not a fast grower, the company has maintained healthy margins, has a net cash position and generates strong free cash flow. We estimate this should allow the company to repurchase around $25 billion in stock (about 12% of shares outstanding) over the next two years.

Cognizant is an IT services vendor, providing consulting and business process outsourcing largely to the health care and financial services industries. The company is executing well and is positioned to benefit from expected margin improvements, in part due to US tax cuts, which should increase its ability to return capital to shareholders. Our original opportunity to invest came in Q1 2017 as a slowdown in earnings coupled with fears surrounding US visa reform pressured shares. The company has since delivered on its renewed focus on fundamental improvements and more efficient capital allocation. With the valuation now discounting a rosier outlook, we chose to exit our position in favor of cheaper alternatives.

Hess, a globally diversified oil and gas E&P, bucked sector-level weakness. Exploration activity led to the discovery of high-quality, deep-water oil offshore of Guyana. The longer-term oil production potential from Hess's Guyana assets is attractive. However, because Guyana is not expected to produce oil until 2021 while immediately incurring capex, investors have been unwilling to attribute full value to these assets. The recent discovery may have helped close some of that discount. In addition, the company announced a $1 billion share repurchase program, on top of the $0.5 billion announced in late 2017—demonstrating increased capital discipline by management. In total, the stock buybacks equate to approximately 10% of shares outstanding.

Portfolio Activity

We established a position in Oaktree Capital Group. Oaktree is a leading alternative asset management company, investing in credit, distressed situations, real estate and private equity. Founder Howard Marks is a legendary value investor who has ingrained his philosophy and process in the firm. Indeed, the firm is known for remaining disciplined—sizing its funds for the opportunity. As a result, the business has counter-cyclical characteristics, which are appealing at the present juncture. As markets have become fully priced, management has exercised caution by not growing assets under management, causing its shares to trail more aggressive peers. In addition, as a provider of highly differentiated, low-correlated products, we believe Oaktree is well positioned for the secular trend in the asset management industry toward a barbell approach to asset allocation, utilizing passive and high value-added products. Lastly, we believe the stock is cheap based on an analysis of recurring fee-related income and its 20% ownership position in asset manager DoubleLine.

There might be an expectation that our purchase activity would be greater because the market was down; however, markets at the end of March were only down to where they were just a few months prior, so it's not as though there was a valuation reset. We did add here and there to existing names, such as CBS, a media company; Jacobs Engineering Group, an engineering and construction company; and Oracle, an enterprise software company.

In addition to Cognizant, we also exited our position in American Capital Agency, a mortgage REIT. We began trimming our position as the stock rallied in the summer. More recently, a flattening yield curve and rising interest rates have pressured sentiment and the economics of the business. As there's movement toward increased rates, what was already a tough game becomes even more challenging. We decided to exit our position in favor of opportunities we believe have more upside potential.

Perspective

For most of the past few years, we've discussed the lack of fear and uncertainty in the marketplace. Not only has that made it more challenging to find quality investments at a distinct discount, but it has also contributed to relative performance headwinds as investors have chased momentum and valued growth potential over existing cash flows and balance-sheet strength. Well, fear and uncertainty returned in Q1 with shifts in trade, fiscal and monetary policies moving to uncharted waters. The recent bout of volatility did not produce immediate results for our relative performance, in part because growth remained in favor in Q1 and the selloff in momentum areas only began in late March. Still, the pick-up in volatility has created more dispersion in the market, which has been positive for increasing our prospective buy lists. If the volatility persists, we believe it should contribute to an expanded opportunity set for alpha generation.

We believe that what you don't own at this juncture is just as important as what you do own. We see a large number of individual names that are selling at much higher valuations than normal. We like how the portfolio is positioned, and at this point in the economic cycle, we believe avoiding some of these high-valuation areas can be a source of alpha for the portfolio on a go-forward basis. Managing risk is at the core of our process. We manage business risk by looking for companies that have solid return-on-capital and cash-flow capabilities. We manage financial risk by focusing on balance-sheet strength. We manage valuation risk by seeking stocks that are out of favor and are selling cheaply. We believe that sticking to our investment discipline—seeking cash-producing businesses in strong financial condition that are selling at undemanding valuations—is the best approach for compounding returns over a market cycle.

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.

International investments involve special risks, including currency fluctuation, lower liquidity, different accounting methods and economic and political systems, and higher transaction costs. These risks typically are greater in emerging markets. 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 1000® Value Index measures the performance of US large-cap companies with lower price/book ratios and forecasted growth values. Russell 1000® Index measures the performance of roughly 1,000 US large-cap companies. Russell 1000® Growth Index measures the performance of US large-cap companies with higher price/book ratios and forecasted growth values. 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 Mar 2018. 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 comprised the following percentages of the Value Fund's total net assets as of 31 Mar 2018: Wells Fargo & Co 2.8%; Citigroup Inc 4.0%; Devon Energy Corp 3.3%; Air Lease Corp 3.5%; Cisco Systems Inc 2.6%; Hess Corp 3.7%; Oaktree Capital Group LLC 2.2%; CBS Corp 2.1%; Jacobs Engineering Group Inc 2.0%; Oracle Corp 3.0%. 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.

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.

The Global Industry Classification Standard (GICS®) is the exclusive intellectual property of MSCI Inc. (MSCI) and Standard & Poor's Financial Services, LLC (S&P). Neither MSCI, S&P, their affiliates, nor any of their third party providers ("GICS Parties") makes any representations or warranties, express or implied, with respect to GICS or the results to be obtained by the use thereof, and expressly disclaim all warranties, including warranties of accuracy, completeness, merchantability and fitness for a particular purpose. The GICS Parties shall not have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of such damages.

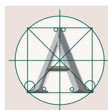
Frank Russell Company ("Russell") is the source and owner of the trademarks, service marks and copyrights related to the Russell Indexes. Russell® is a trademark of Frank Russell Company. Neither Russell nor its licensors accept any liability for any errors or omissions in the Russell Indexes and/or Russell ratings or underlying data and no party may rely on any Russell Indexes and/or Russell ratings and/or underlying data contained in this communication. No further distribution of Russell Data is permitted without Russell's express written consent. Russell does not promote, sponsor or endorse the content of this communication.

This material is provided for informational purposes without regard to your particular investment needs. This material shall not be construed as investment or tax advice on which you may rely for your investment decisions. Investors should consult their financial and tax adviser before making investments in order to determine the appropriateness of any investment product discussed herein.

Free Cash Flow is a measure of financial performance calculated as operating cash flow minus capital expenditures. **Dividend Yield** is a financial ratio that shows how much a company pays out in dividends each year relative to its share price. **Alpha** is a quantitative measure of the volatility of the portfolio relative to a designated index. A positive alpha of 1.0 means the fund has outperformed its designated index by 1%. Correspondingly, a similar negative alpha would indicate an underperformance of 1%. **Return on Capital (ROC)** is a measure of how effectively a company uses the money (borrowed or owned) invested in its operations.

Artisan Partners Funds offered through Artisan Partners Distributors LLC (APDLLC), member FINRA. APDLLC is a wholly owned broker/dealer subsidiary of Artisan Partners Holdings LP. Artisan Partners Limited Partnership, an investment advisory firm and adviser to Artisan Partners Funds, is wholly owned by Artisan Partners Holdings LP.

© 2018 Artisan Partners. All rights reserved.

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