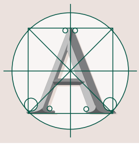


Artisan Value Fund

QUARTERLY Commentary

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

As of 30 June 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.

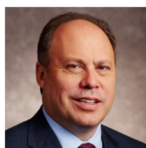
Attractive Business Economics

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

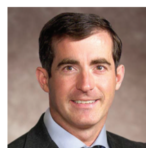
Team Overview

Everyone on the team functions as a generalist with respect to investment research and the entire team works together on considering potential investments.

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 30 June 2018	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception
Investor Class: ARTLX	**4.25**	**-0.62**	**9.73**	**10.16**	**9.91**	**8.06**	**7.13**
Advisor Class: APDLX	**4.34**	**-0.48**	**9.90**	**10.31**	**10.01**	**8.11**	**7.18**
Institutional Class: APHLX	**4.33**	**-0.48**	**9.95**	**10.39**	**10.17**	**8.24**	**7.28**
Russell 1000® Value Index	1.18	-1.69	6.77	8.26	10.34	8.49	6.78
Russell 1000® Index	3.57	2.85	14.54	11.64	13.37	10.20	8.55

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
Semi-Annual Report 31 Mar 2018[1]	1.04	0.88	0.80
Prospectus 30 Sep 2017[2]	1.01	0.85	0.80

[1]Unaudited, annualized for the six-month period. [2]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

Stocks weakened at quarter end and volatility crept higher as second-quarter earnings expectations fell amid rising trade tensions and a potentially more-hawkish Fed. In general, market volatility—as measured by the CBOE's VIX Index—was lower on average in the second quarter than it was in the first, but the market was unable to reach January's highs, despite economic and corporate fundamentals remaining positive. Still, total returns were positive in Q2, and earnings estimates ended higher than where they started.

For the broad market indices, quarterly returns were positive across the market-cap spectrum, with small-caps leading both large- and mid-cap stocks. Large-cap stocks outperformed mid-caps.

The energy sector dominated benchmark total returns amid buoyant oil and gas prices in Q2. Falling long-end yields and a flatter yield curve benefited the real estate (namely REITs) and utilities sectors while acting as a drag on financials. Consumer staples and telecom also suffered from a total returns perspective.

Performance Discussion

Our portfolio outpaced the Russell 1000® Value Index QTD, due predominantly to stock selection, which was solid across all industries where we have exposures, with the exceptions of consumer discretionary and health care. Our technology holdings were an area of strength, led by larger holdings Alphabet and Apple and newer holding Facebook. Our chemicals holdings were another area of strength, including solid performances from globally integrated producer of chemicals Celanese and Nutrien (a result of a merger between nitrogen player Agrium and fertilizer company Potash). A lack of consumer staples exposure also aided relative results, as this was the index's worst-performing sector.

However, our largest source of absolute and relative strength was energy—though energy was the index's best performing sector, our holdings outpaced index peers. As such, energy exploration and production firms, Devon Energy and Hess Corp, were our top individual contributors. Stronger commodities prices have certainly helped. In addition, Devon, an independent energy company, continues doing what quality energy companies have learned to do: live within their cash flow, retire debt, sell substantial amounts of non-core assets, repurchase shares and not expand production at an overly aggressive rate. Shareholders have rewarded this behavior. Devon was also buoyed by an announcement in June that it would sell its interest in EnLink Midstream for $3.125 billion and use the proceeds to raise its share buyback program to $4 billion, retiring approximately 20% of outstanding shares by the end of 2019. Operationally, Devon proved its first quarter production hiccup was just that, a hiccup. As for Hess, it benefited from more good news in its Liza development off Guyana with Exxon. The Liza development is pre-funded by Hess, which the rating agencies recognize by giving the company an investment grade rating. While the cash flow inflection is several years off, investors are beginning to look at quality developments outside the US Permian basin and wanting to increase exposure to Brent rather than WTI oil prices. We trimmed energy sector positions on strength.

As mentioned, new Q2 purchase Facebook was also a top contributor. We purchased Facebook during its significant price decline early in the quarter. The sell-off was caused by discouraging privacy-related revelations, specifically related to Cambridge Analytica and the 2016 US Election. Additionally, Europe implemented a new privacy policy, General Data Protection Regulation (GDPR), in late May 2018, which could cause choppy near-term results. At the time of purchase, we believed we could get our arms around the downside, including increasing capital expenditures and operating expenditures to improve privacy protection necessary to restore trust with their users and protect their network effect. While Facebook is historically a growth-oriented company, it has matured into a name that meets our disciplined investment criteria. We consider Facebook a dominant social media platform that has monetized well both desktop and mobile—indeed, it set the standard. Its healthy balance sheet has approximately $41 billion net cash and strong free cash flow excluding stock compensation expense, which together make us comfortable with this investment.

We take the concerns around privacy and compliance seriously, and expect higher expenses and capital expenditures. That said, we believe Facebook is taking the right steps to repair its image, as the network effect is its most enduring asset and user trust is of utmost importance. Its Instagram platform is becoming a force all its own, with approximately 1 billion users. Based on our time-of-purchase valuations, Facebook's Instagram assets were essentially free—not bad when we estimate those assets could be worth $50 billion to $100 billion.

The biggest detractor in the second quarter was Cardinal Health, an integrated health care services and products distribution company. While the stock has repeatedly suffered from concerns around weaker drug pricing and difficult contract renegotiations over the past couple years, this recent quarter the new management team reset expectations, which led to a significant stock pullback. Spotty execution from relatively recent acquisitions caused investors to question the company's grasp on the business and trajectory of future operational improvement. Drug distributors are critical to the health care system, as they have the scale and scope to get crucial pharmaceuticals to end users in a time-sensitive and cost-effective manner. However, market participants are currently quite vocal about the continuous threat of Amazon, the regulatory and reimbursement climate and the potential fallout from opioid lawsuits. We think the price largely reflects many of these fears and are comfortable with the business: low capital-intensity, generates significant free cash flow and has high returns on capital.

Other top detractors included tire manufacturer Michelin and Qurate, a video and Internet commerce business that owns the QVC® network.

Concerns a trade war might have negative consequences on its business took the air right out of Michelin's share prices. 75% of Michelin's business is aftermarket, but 25% is still original equipment (OE) and profitable. Much of the initial trade-war bluster between the US and EU is around automobile manufacturing. The market views US auto purchases as near their peak, so the trade tensions exacerbate existing fears. Additionally, Michelin faces heavy competition from cheap Chinese imports to the US. Raw material price inflation, which can drive up input costs, also has the market nervous. However, we believe Michelin is responding to market conditions well by increasing its exposure to areas insulated from Chinese competition, such as specialty tires. The strategic tack, strong cash flow and cheap valuation gave us confidence to purchase some Michelin during the quarter.

Qurate was also a large negative contributor as its transition from a complicated tracking-stock structure to an asset-backed security proved a headwind to its valuation. Business performance is improving as the company continues to tweak its strategy and product offerings to regain sales momentum and attract new customers. In general, we believe the shares remain cheap and the business generates free cash flow that largely gets returned to shareholders and deployed in value-enhancing strategic moves.

Portfolio Activity

In addition to Facebook, Comcast was the other new name added to the portfolio in Q2. When the market beat down Comcast's stock price after its offer to purchase British broadcaster SKY, the valuation for America's largest cable operator became compelling. Its dominant market position in high speed Internet along with its NBCUniversal content machine provide, we believe, an enduring intellectual property that generates cash flow. Furthermore, it does all this with less leverage than its peers. Crucially, we see Comcast as an Internet provider rather than a cable company. In extreme cord-cutting scenarios we believe Comcast only loses 15% of its EBIT, while the market likely suspects much more.

We continued adding to existing holdings CBS, Expedia and GCI Liberty. Our thesis on CBS is intact: Despite headwinds, we believe CBS can benefit from rising cash flows coming from retransmission contract renewals, its production company and ownership of the Showtime cable network and local affiliates, as well as its scarcity value due to its breadth of strategic assets. We believe CBS is positioned well for evolution in the media industry. The company owns its content, has its own method for distribution (CBS All-Access) and can sell content into syndication with minimal damage to its brand. While the top line is growing only slightly, the revenue mix continues to shift away from less stable advertising revenue to more stable affiliate fees and licensing revenue. CBS also returns all its free cash flow to shareholders via dividends and buybacks and remains well capitalized.

Regarding our Expedia and GCI additions, we believe aligning ourselves with good capital allocators (like Liberty Media's Chairman John Malone) is good practice and can be an important differentiator, especially in periods where the market is experiencing elevated valuations.

In Q1, Cigna announced plans to acquire our holding, Express Scripts, the pharmacy benefit manager. Investor distaste for the deal widened prices between the two stocks. As the Justice Department's decision in the ATT-Time Warner merger neared—the market considered this a good proxy for how the Department of Justice might rule on other vertical mergers—the Express Scripts-Cigna price gap narrowed and provided us an opportunity to sell our shares at a much smaller discount to the announced deal price. We preferred this route to holding the stock and bearing the risk of a negative ruling from the regulators.

Perspective

While we welcomed the first quarter's modest market turmoil as a catalyst for raising investor fear and uncertainty, the second quarter's steady price appreciation and lower average volatility presented little opportunity for finding quality investments at a distinct discount. But the relative strength in energy prices and higher valuations allowed us to trim some positions and boost relative performance.

We see many individual names that are selling at much higher valuations than normal, but it isn't in our process to go toward momentum. 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.

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. Cboe Volatility Index® (VIX) measures the market's expectation of 30-day volatility based on the implied volatilities of a wide range of S&P 500® Index options. 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 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 30 Jun 2018: Alphabet Inc 4.5%; Apple Inc 4.0%; Nutrien Ltd 3.5%; Hess Corp 3.2%; Devon Energy 3.1%; Facebook Inc 3.0%; Cie Generale des Etablissements Michelin SCA 3.0%; CBS Corp 2.8%; Comcast Corp 2.6%; Qurate Retail Inc 2.3%; Cardinal Health 1.7%; Celanese Corp 1.7%; Expedia Group Inc 1.6%; GCI Liberty 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.

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Free Cash Flow is a measure of financial performance calculated as operating cash flow minus capital expenditures. **Earnings Before Interest & Tax (EBIT)** is an indicator of a company's profitability, calculated as revenue minus expenses, excluding tax and interest. **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%. **Investment Grade** indicates above-average credit quality and lower default risk and is defined as a rating of BBB or higher by Standard and Poor's and Fitch rating services and Baa or higher by Moody's ratings service.

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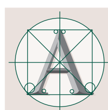
A R T I S A N  P A R T N E R S