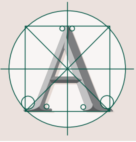

Artisan Mid Cap Value Fund

QUARTERLY Commentary

Investor Class: ARTQX | Advisor Class: APDQX | Institutional Class: APHQX

As of 30 September 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 September 2018	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception
Investor Class: ARTQX	**2.39**	**3.65**	**8.55**	**12.54**	**6.94**	**9.94**	**10.52**
Advisor Class: APDQX	**2.39**	**3.75**	**8.68**	**12.67**	**7.03**	**9.98**	**10.55**
Institutional Class: APHQX	**2.39**	**3.79**	**8.75**	**12.77**	**7.17**	**10.10**	**10.61**
Russell Midcap® Value Index	3.30	3.13	8.81	13.09	10.72	11.29	10.18
Russell Midcap® Index	5.00	7.46	13.98	14.52	11.65	12.31	9.99

Source: Artisan Partners/Russell. Returns for periods less than one year are not annualized. Class inception: Investor (28 March 2001); Advisor (1 April 2015); Institutional (1 February 2012). 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	ARTQX	APDQX	APHQX
Semi-Annual Report 31 Mar 2018[1]	1.20	1.06	0.98
Prospectus 30 Sep 2017[2]	1.17	1.06	0.97

[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

At least since Q2 2009, which the National Bureau of Economic Research marks as the official end of the last recession, value stocks have underperformed growth stocks. The trend continued through Q3, with the Russell Midcap® Growth Index hitting a 13.5% 10-year annualized return versus 11.3% for the Russell Midcap® Value Index. Even as value underperformed growth, equity markets have soared in the decade since the crisis, pushing multiples higher and squeezing the margin of safety out of many value stocks. So with the investment style beaten down and the opportunity set narrowed, investors looking to put new money to work may be viewing the value approach with a bit of skepticism. Add to this the proliferation of passive, index-tracking products that appeal to the cost-conscience allocator, and it may seem like the method of profiting from out-of-favor stocks is, itself, out-of-favor.

To us, this is no woe-is-me time for active value investors with a disciplined approach. In fact, it's the exact kind of market environment that tests our mettle—allowing us to focus on the research process and pick our targets for when margins of safety start widening again. Some of these targets will be names outside the index, like top QTD contributor IAC/Interactive Corp, because that's one crucial way an active manager can add value. Other names will see their valuations only get even more undemanding as we enter and build the position, like bottom QTD contributor and new portfolio addition Delphi Technologies.

A disciplined investment process should be thoughtful and probably requires a real-life person (or persons) to think and make informed decisions amid risk and uncertainty. Simply tracking an index can take you places you may never have intended to go. A good example is this year's top contributor to the Russell Midcap® Value Index's total return, everyone's favorite digital songbird, Twitter. How many passive mid-cap value investors do you think would be surprised to find out their 2018 performance hinged on a social media platform that's been public for the whole of five years, trades at 81X analyst estimates of 2018 GAAP net earnings, 30X pre-tax operating profit and almost 50X per share free-cash-flow estimates? Many, we would suggest. What's more, in a worst-case scenario, and this is not without precedent, a passive ETF may even be buying companies that turn out to be frauds, simply because those companies are in the index.

Performance Discussion

Overall, investor fears creeped into the market's return profile as defensive sectors benefited and those exposed to policy uncertainty lagged. Industrials performed well in the index, notably the airlines, aerospace & defense and machinery sectors. Health care was also a strong performer, a traditionally defensive play for investors since it is largely a non-tradable sector with relatively inelastic demand for much of its goods and services.

QTD our portfolio trailed the Russell Midcap® Value Index, as poor performance among a few consumer discretionary and traditional media names weighed on results. Below-benchmark exposure to a robust health care sector also detracted from relative returns. Conversely, stock selection among financials and our off-benchmark exposure to interactive media were beneficial.

Financials were one of the weaker performers for the index in absolute terms over the quarter, but the strongest relative performer for our portfolio. Why? Because banks take up the bulk of the index sector weight, and they had worse performance than insurers, a sector where our bottom-up approach has identified a handful of strong stocks, many of which are off-benchmark.

Among our top detractors QTD was Delphi Technologies, which is an automotive parts supplier to auto manufacturers. Delphi is a new name in the portfolio. We were initially attracted to the business due to an undemanding valuation coupled with what looks like a misunderstanding in the market regarding Delphi's future growth opportunities. The business fell further out of favor after our initial purchase due to rising investor concern over the auto market slowing, emission regulations in Europe negatively impacting sales on the continent, and a decline in the expected second-half growth rate of auto sales in China. We continue to believe Delphi is executing well amid a challenging backdrop and that it remains poised to benefit from the trend toward electric vehicles.

Like Delphi, car dealer AutoNation was another notable detractor in the face of cyclical pressures, weakening US auto sales and the potential negative effects of tariffs. Despite policy uncertainty and weaker-than-expected Q2 earnings, AutoNation continues to be a highly profitable, well-financed, cash-generating business, with management engaged in creating per-share value for shareholders. When considering a range of outcomes in earnings power and a variety of macroeconomic scenarios, the business looks attractively valued. We believe this is an opportunity to own a quality franchise at an undemanding valuation.

Among our top QTD contributors was IAC/InterActive Corp, whose stock price reached a record high in September. We have been trimming our position in IAC during the quarter on our belief that portions of the business—namely Match.com and Angie's List—are aggressively valued. Even still, we believe management's track record of unlocking value for shareholders makes it worth holding while remaining mindful of our margin of safety.

Also among our top Q3 contributors were Fluor and Jacobs Engineering, engineering and construction services firms. Weak energy prices over several years kept industry capex low, negatively impacting these companies' backlogs. But as prices have started stabilizing and moving higher, firms are expanding downstream capacity, and firms like Fluor and Jacobs Engineering stand to benefit from this increased pace of activity.

Share prices for Fluor are also benefiting from an increase in awarded contracts and a rapidly rising backlog of work. Prices recovered sharply into quarter-end, reaching a fair level as we continued to trim holdings on strength.

By migrating the mix of their backlog away from the more volatile energy industry, specifically servicing downstream petrochemical facilities, Jacobs has benefited from improving execution, rising backlogs and a shift of the portfolio toward better target profitability in areas like government services, information systems, cybersecurity, infrastructure and water. The market appears to agree with this shift in focus, and we have trimmed our position here as well on some of this strength.

Andeavor, a refiner and marketer of petroleum products, was another top QTD contributor, still trading largely in sync with Marathon Petroleum as they neared completion of their merger and crude oil prices remained relatively strong.

Portfolio Activity

With valuations broadly uninspiring, patience remains a virtue in this market environment. However, we did find opportunity in a few new names: Delphi Technologies, Synchrony Financial and Pinnacle Financial Partners.

We added Synchrony Financial, a consumer financial services company, to the portfolio as its share price fell early in the quarter, pressured lower when the company failed to renew its Walmart partnership. While losing Walmart caused some pain early on, our view is Synchrony is a value-added partner and remains conscious of earning an appropriate rate of return on its capital. Additionally, the PayPal partnership, which was announced earlier this year, closed on July 2. The $7.6 billion portfolio balance offsets a great deal of the $10 billion Walmart loss. We believe PayPal is a higher-quality partner to grow with, and the profitability of the contract is likely better over the long run. Synchrony's balance sheet remains solid, credit metrics are improving, and we believe management can validate their value proposition to customers by renewing a few key contracts in the coming year.

We also added Pinnacle Financial Partners to the portfolio, a bank holding company focused on community banking in the Nashville, TN area. Pinnacle has notably lagged over the past year due to concerns on higher deposit costs, digestion of a large M&A transaction completed in January 2017, transitioning from a growth multiple to a value multiple and turnover of the shareholder base.

It's an increasingly challenging auto insurance environment, and we sold our stake in the Allstate Corporation because of it. When viewed through the lens of normalized earnings, rather than reported earnings, we determined the valuation reflected the company's full potential at present. Furthermore, we fear the company's deep interest in pursuing growth for its own sake could lead to a profitless prosperity, a phenomenon we will be all too happy to avoid.

We also completely closed our position in World Fuel Services. With the cost of capital remaining so cheap, the business's supposedly durable competitive advantages waned over the years as competitors were able to chip away at excess industry profits. As fuel prices continue to rise and profits become more difficult to achieve, the company's financial condition gets more perilous. Management is in the middle of a multi-year fix-up effort—something that remains complicated and is fraught with risk. We chose to exit in favor of other opportunities.

We continued trimming our Alleghany Corp position, as it reached a larger-than-intended size in our portfolio and valuations remain elevated.

Perspective

It's late in the economic cycle. How late? We can't rightly say. But we do know that cyclicality will prevail, and recent peaks will eventually become troughs. Our process is designed to take advantage of the discounts that will manifest. Until then, we still 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.

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.

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. Russell Midcap® Growth Index measures the performance of US mid-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 30 Sep 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 comprise the following percentages of the Mid Cap Value Fund's total net assets as of 30 Sep 2018: IAC/InteractiveCorp 3.6%; AutoNation Inc 2.7%; Fluor Corp 2.2%; Synchrony Financial 2.1%; Andeavor 2.1%; Jacobs Engineering Group Inc 2.0%; Delphi Technologies PLC 1.7%; Alleghany Corp 1.3%; Pinnacle Financial Partners Inc 1.3%. 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. **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. **Generally Accepted Accounting Principles (GAAP)** are the common set of accounting principles, standards and procedures that companies use to compile their financial statements. **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%.

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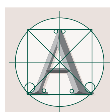
A R T I S A N  P A R T N E R S