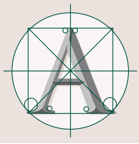


Artisan Value Fund

QUARTERLY Commentary

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

As of 31 March 2019

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

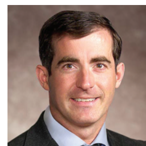
We favor cash-producing businesses that we believe are capable of earning acceptable returns on capital over the company's business cycle.

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

Craig Inman, CFA
Portfolio Manager

Investment Results (%)

			Average Annual Total Returns				
As of 31 March 2019	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception
Investor Class: ARTLX	**13.29**	**13.29**	**1.10**	**9.92**	**6.00**	**13.21**	**6.46**
Advisor Class: APDLX	**13.26**	**13.26**	**1.26**	**10.08**	**6.12**	**13.28**	**6.50**
Institutional Class: APHLX	**13.33**	**13.33**	**1.34**	**10.19**	**6.24**	**13.43**	**6.61**
Russell 1000® Value Index	11.93	11.93	5.67	10.45	7.72	14.52	6.74
Russell 1000® Index	14.00	14.00	9.30	13.52	10.63	16.05	8.48

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 (% Gross/Net)	ARTLX	APDLX	APHLX
Annual Report 30 Sep 2018	1.01/—	0.89/0.88[1,2]	0.80/—
Prospectus 30 Sep 2018[1]	1.02/—	0.90/0.89[2]	0.80/—

[1]See prospectus for further details. [2]Reflects a contractual expense limitation agreement in effect through 31 Jan 2020.

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

In Q1 2019, equity markets rebounded almost as sharply as they fell at the end of 2018. If you had entered a position in the S&P 500® Index on the first trading day of the year and held it for the next three months, you would have benefited from the market's best price appreciation since 2009. The market levitated all equities, but it was technology stocks that soared ahead of other sectors, and small-cap equities generally beat larger-cap counterparts.

The story was similar for the Russell 1000® Value Index. Seven of the 11 sectors reached double-digit total returns. Communication services and information technology were among the top performers while health care lagged. Financials was the top-performing sector, and energy put in a good quarter as well. Strong performances here suggest steady-to-high economic growth prospects, a healthy pace of technological innovation and stability in the financials sector. If risk appetites seemed robust, it's because they were—at least initially. The index earned the vast majority of its quarterly gains by the end of February but traded mostly flat during March and into quarter end.

Perhaps it was an increasingly dovish Fed, or a spate of weaker-than-expected economic data, or maybe the continued geopolitical uncertainty around Brexit or China trade. Whatever the cause, the market's risk appetite flipped mid-quarter, sapping strength from the rally and pressuring cyclicals while boosting defensive sectors. As interest rates fell, real estate also found its footing. This stark reversal in market sentiment had notable effects on our relative returns.

Interest-rate sensitive and defensive sectors—utilities, consumer staples and real estate—were the stars in the latter half of Q1, and each earned double-digit total returns in the Russell 1000® Value Index for the whole quarter. Together, they comprise some 19% of the total index. By comparison, we don't hold any names in these sectors.

While there were sector specific forces that whipsawed the benchmark, there were also broad investment style trends pressuring value stocks more generally. Over the last decade, the Russell 1000® Growth Index has annually beaten the Russell 1000® Value Index seven times. This trend carried through Q1 2019 as well. Growth's dramatic outperformance over value reveals itself most clearly in a historically wide valuation spread, which for the uninitiated is the differential between the highest multiple (i.e., most expensive) and the lowest multiple (i.e., least expensive) stocks. Experience suggests that rich stocks can't stay rich forever and cheap stocks don't stay cheap forever. But for the time being, value remains out of favor.

Performance Discussion

Solid stock picking led our portfolio to outpace the Russell 1000® Value Index in Q1. Our financials, communication services and technology holdings contributed prominently to relative returns. Consumer discretionary exposures dragged modestly on performance.

Top contributor consumer financial services company Synchrony Financial benefited from settling a protracted legal dispute with Walmart and from renewing contracts with related partners (e.g., Sam's Club). Additionally, the share price has appreciated based on expectations of hearty stock repurchases—approximately $5bn—over the next 18 months. Adding to this momentum are a solid balance sheet, still-improving credit metrics and a record of profitability. Synchrony's low valuation combined with healthy business fundamentals and strong capital return have been favorable for the stock price.

As financials led the index, global financial services holding company Citigroup was another top performer. The company is highly diversified by region and product, and it has one of the strongest balance sheets among all international banks. Cost-cutting efforts have succeeded at raising profits above expectations, and management continues to repurchase shares at a discount to tangible book value, which should keep adding value for shareholders.

Among all our communication services holdings, which was a top performing sector, off-benchmark name Facebook was the top contributor. Facebook, whose stock price has yet to recover fully from a tough Q2 2018, is a dominant social media platform with a robust net cash position and consistent free cash flow. It's likely to face heightened scrutiny into the 2020 election cycle—an intensifying focus on "fake news" and bad actors using the platform—which can raise concern of potential regulatory fines or penalties. Additionally, the transition from the traditional Facebook news feed model to "stories" will take time and lead to lower revenue per user as advertisers adjust to the new medium. We take the concerns around privacy and compliance seriously and expect higher expenses and capital expenditures. The company is taking these challenges seriously as well, with higher headcount, capex and expenses to address the problems. In addition, Facebook is focusing its efforts to develop private communications options. Facebook platforms have traditionally been the "town square," and now it is trying to develop the social media equivalent of "the living room."

Television and online retailer Qurate (parent company of QVC and HSN) was the largest detractor from relative returns. After rallying with the market in January, the stock traded flat until the last couple days of February, and then it continued falling in March. Weighing broadly on investor sentiment was both a worse-than-expected earnings report and growing evidence that efforts to gain traction in the digital marketplace would pressure costs and margins. Unlike the successful TV and telephone model of QVC's past, this transition would likely cut into margins—customer acquisition is expensive and pricing power on the Internet is generally weaker.

Berkshire Hathaway was another top detractor on a relative basis, and one of only two negative absolute return names in the portfolio during Q1. Its exposure to a volatile Apple stock weighed on the

valuation. Perhaps more notably, it was Berkshire's exposure to trains (BNSF) and train wrecks (Kraft Heinz) that were drags on performance.

Portfolio Activity

In the quarter, we added the prime US defense contractor Raytheon to our portfolio. After several years of safe haven-like performance, fear and uncertainty grew around the business's continued stability. Most notably, it was concern that federal defense spending growth would slow, especially after recently surging. Raytheon offers products and services across the defense industry spectrum, from technical and professional support to integrated combat and missile systems. Using our rubric for evaluating companies, the clean balance sheet, modest leverage and shareholder-oriented management put Raytheon right in our sights. What's more, the nature of the defense industry tends to favor relatively few, well-established players, which means the economic moat around this business is formidable. Not only does Raytheon maintain top-flight engineering expertise and mission-critical products, it has a deep understanding of the Byzantine federal bureaucracy. We believe Raytheon is poised to deliver revenue growth and strong free cash flow improvement in the coming years.

Other notable portfolio activity relates to our energy sector holdings. When crude oil prices crashed in 2016, we considered that dislocation a buying opportunity. However, secular shifts in the industry have kept pressure on exploration and production firms despite some recovery in oil prices. Valuations continue to lag the underlying commodity, and we actively pared positions in this space on the post-Q4 2018 recovery in oil prices.

Perspective

We often say *alpha doesn't know there is a calendar*. And we don't say that just to rationalize underperformance. We say it because calendar periods have no intrinsic meaning; they are merely reference points. What's more, over short time frames, randomness can have a strong influence over market prices. We keep this adage top of mind because extending our investment time horizon is a core tenet of our philosophy. Experience suggests there is an advantage to a longer-term view, and if alpha knows no calendar, neither should we.

Another pillar of our philosophy is remaining benchmark agnostic. We are aware of the benchmark, of course, but still think what it owns is its own problem. More specifically, we don't invest in sectors. Our portfolio's sector allocations are simply a byproduct of our stock-selection process. So, when large economic or style trends influence benchmark performance, those pressures can be magnified within the portfolio. By extending our time horizon and investing without considering the index's sector composition, we seek to produce value over the long term. But sometimes, especially on a quarterly basis, that means returns will deviate from the index.

Our process is designed to take advantage of the discounts that can manifest when fear and uncertainty drive prices away from their intrinsic values. These dislocations don't occur at regular intervals or coincide with standard return periods. Therefore, we remain disciplined about the prices we are willing to pay, but as always, we have an opportunistic attitude and will continue engaging in new opportunities where valuations warrant. We believe avoiding high-valuation areas can continue to 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. Russell 1000® Growth Index measures the performance of US large-cap companies with higher price/book ratios and forecasted growth values. S&P 500® Index measures the performance of 500 US companies focused on the large-cap sector of the market. 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 2019. 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 2019: Synchrony Financial 3.0%; Citigroup Inc 3.5%; Facebook Inc 2.9%; Qurate Retail Inc 1.0%; Raytheon Co 2.6%; Berkshire Hathaway Inc 4.4%; Apple Inc 4.1%. 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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Free Cash Flow is a measure of financial performance calculated as operating cash flow minus capital expenditures. **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%. **Book Value** is the net asset value of a company, calculated by total assets minus intangible assets and liabilities. **Return on Capital (ROC)** is a measure of how effectively a company uses the money (borrowed or owned) invested in its operations.

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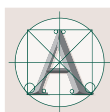
A R T I S A N  P A R T N E R S