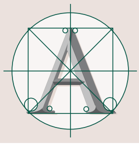


Artisan Mid Cap Value Fund

QUARTERLY Commentary

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

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.

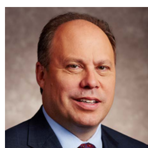
Attractive Business Economics

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

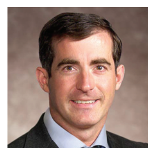
Team Overview

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: ARTQX	**11.98**	**11.98**	**-0.86**	**7.84**	**3.66**	**12.98**	**9.80**
Advisor Class: APDQX	**11.96**	**11.96**	**-0.75**	**7.96**	**3.76**	**13.03**	**9.83**
Institutional Class: APHQX	**12.01**	**12.01**	**-0.65**	**8.06**	**3.88**	**13.15**	**9.89**
Russell Midcap® Value Index	14.37	14.37	2.89	9.50	7.22	16.39	9.72
Russell Midcap® Index	16.54	16.54	6.47	11.82	8.81	16.88	9.61

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
Annual Report 30 Sep 2018	1.19	1.05	0.98
Prospectus 30 Sep 2018[1]	1.20	1.05	0.99

[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

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. Technology stocks soared, and small-cap equities generally beat larger cap counterparts.

On its face, the story was similar in the mid-cap space, where the Russell Midcap® Value Index was up just over 14% in Q1. If risk appetites seemed robust, it's because they were—at least initially. While broad markets strengthened into quarter end, the Russell Midcap® Value Index had taken all its gains—and investors earned all their return—by the time the index peaked in late February. For the remainder of the quarter, the index was flat.

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. Examining how sector performance in the Russell Midcap® Value Index evolved helps illustrate the point. From the first of the year to February 20, the energy, technology and financials sectors led the index. Strong performances here suggest steady-to-high economic growth prospects, innovation and stability in the financials sector. The defensive-leaning utilities and consumer staples sectors were the weakest in this period. But from February 20 to quarter end, the index performance flipped. Utilities and staples were the top performers as financials and energy lost ground. As interest rates fell, real estate also found its footing in the more defensive environment. This stark reversal in market sentiment had notable effects on our relative returns.

While inside the mid-cap value space sentiment was combining with sector biases to whipsaw the benchmark's performance, 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

When it comes to relative returns, what a portfolio doesn't hold can be just as important as what it does. For example, not owning any names in the utilities sector was the top contributor to our relative performance in the first quarter. Our portfolio benefited from its below-benchmark utilities exposure as utilities lagged in the first half of the quarter, but we gave up some gains as utilities rallied into quarter end.

The market's aforementioned defensive posture starting in the last half of February was accompanied by falling interest rates, ultimately benefiting consumer staples, real estate and utilities. These three sectors were 30% of the index's weight in the first quarter and only 6% of our portfolio's weight. Due mostly to these sector biases, our portfolio trailed the Russell Midcap® Value Index QTD.

Television and online retailer Qurate (parent company of QVC and HSN) was the largest QTD detractor from relative returns. After rallying with the market in January, the stock traded flat until the last couple days of February; 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.

The roadmap for the *Restock Kroger* initiative may be faltering as investors pushed down Kroger's stock 10% on fears that management's turnaround plan will take longer than anticipated or simply prove unsuccessful. Consequently, Kroger was a top detractor from Q1 performance. The bulk of the weakness came over a two-day span in early March when it appeared management was getting further from, rather than closer to, fulfilling 2018's promise of $400 million in incremental operating profit growth and $6.5 billion in cumulative cash flow by 2020. Year-over-year earnings growth has softened, and gross margins compressed in Q4 2018. We expect this to be a back-and-forth situation—meaning a mix of advances and surprises—but Kroger's strong competitive position should help carry the day.

Tax preparer H&R Block (HRB), another top detractor, suffered as analysts raised concerns that fewer itemizations (thanks to the higher standard deduction passed in 2017's tax bill) would mean less demand for Block's services. However, we would note over 70% of HRB's customers take the standard deduction already, and we think changes in the tax law are not likely to materially impact the company over the longer term. Even as the tax code evolves, we believe the company is one of the industry's best brands based on its strong market-share position, and a highly cash generative business model. Expectations remain low for HRB despite a healthy balance sheet and much of the cash generated allocated to dividends and share repurchases.

Q1's top contributor was Dentsply Sirona, a global dental products manufacturer and distributor resulting from an all-stock merger of equals that took place in February 2016 between Sirona Technologies (digital tech) and Dentsply (dental supplies). The management team

at the time botched the merger; subsequently, the board of directors cleaned house. There is now an extensive turnaround effort underway. Before we took up our position, the market had soured on the name amid all the mismanagement and turnover. Since then, the restructuring has been going well, execution risks have diminished, and the stock has outperformed. This name is exemplary of our approach: We had followed the business for a long while and waited patiently for the valuation to come to us. We like the company's steady, recurring, market-leading consumables business that serves the dentist office at every patient visit. That, along with management's commitment to prudent capital management, is being reflected in the rising valuation.

A top contributor, consumer financial services company Synchrony Financial, benefited from settling a protracted legal dispute with Walmart and from renewing contracts with major 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.

Telecom services provider, top contributor GCI Liberty, is our see-through play on Charter Communications, which performed well in the quarter as free cash flow improved. Central to our thesis is this free cash flow story: We anticipated that it would improve, and it has been doing so, both sooner and more intensely than expected. Another tailwind to Charter's Q1 performance was a decrease in promotional efforts out of AT&T, which meant weaker price competition.

Portfolio Activity

In addition to balancing our regional bank exposures by swapping some Fifth-Third for SunTrust while keeping overall index exposure mostly unchanged, we added two new names to the portfolio—film and television content producer Lions Gate Entertainment and the enterprise data storage and management firm NetApp.

Lions Gate Entertainment, in its present form, is the result of a 2016 acquisition of the Starz Network. The combination of the Lionsgate Films franchise, which is the world's largest independent film studio (by revenue), with the premium cable network Starz and its 25-30 million subscribers makes for a strong content generator and robust distribution platform. The acquisition raised the company's leverage markedly, and this, along with a weak movie slate and the end of highly successful TV franchises, led to an environment of concern among investors. Those fears translated into what we believed to be an excessive discount for a free cash flow-generating content powerhouse.

NetApp is an enterprise data storage and solutions company with a specialization in all-flash (i.e., solid-state) storage. After an unfocused period of weak growth that led the board to oust the CEO in 2015, the company has been transforming its business from exclusively storage systems to compete in the broader enterprise cloud computing space. Given NetApp's relatively new entry into this highly competitive industry has many doubters, valuations have been discounted. It's certainly a difficult transformation for management, but the strong balance sheet and healthy stock buyback program, record of technological innovation, and until now, lack of concerted product and service marketing, suggest to us this is an undervalued stock with potential.

Online travel research company TripAdvisor was our only full sale in the quarter. This industry-leading platform had reached valuations that we view as having moved to the more aggressive side of the spectrum. The market appeared to value the firm at a premium under the expectation that it is a prime acquisition target. While this may be the case, it's only one of many possible outcomes for TripAdvisor. Additionally, recent earnings success was rooted in efforts to trim marketing expenses and boost margins. We don't expect these improvements are sustainable; quarterly earnings reports may be strong versus expectations and guidance may improve, but we hew to the idea that the quality of the earnings matters as much as the beat.

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.

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. 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 comprise the following percentages of the Mid Cap Value Fund's total net assets as of 31 Mar 2019: DENTSPLY SIRONA Inc 2.7%; Fifth Third Bancorp 1.7%; GCI Liberty Inc 2.5%; H&R Block Inc 2.1%; Lions Gate Entertainment Corp 1.6%; NetApp Inc 1.1%; Qurate Retail Inc 1.1%; SunTrust Banks Inc 1.5%; Synchrony Financial 2.4%; The Kroger Co 2.8%. 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.

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. **Return on Capital (ROC)** is a measure of how effectively a company uses the money (borrowed or owned) invested in its operations. **Book Value** is the net asset value of a company, calculated by total assets minus intangible assets and liabilities. **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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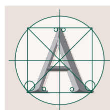
A R T I S A N  P A R T N E R S