Artisan Mid Cap Value Fund

QUARTERLY
Commentary

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

As of 30 September 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 (%)

As of 30 September 2019	QTD	YTD	Average Annual Total Returns 1 Yr	3 Yr	5 Yr	10 Yr	Inception
Investor Class: ARTQX	**-0.60**	**16.94**	**-2.49**	**6.80**	**4.94**	**9.64**	**9.78**
Advisor Class: APDQX	**-0.55**	**17.05**	**-2.32**	**6.95**	**5.06**	**9.70**	**9.81**
Institutional Class: APHQX	**-0.55**	**17.16**	**-2.22**	**7.05**	**5.17**	**9.83**	**9.88**
Russell Midcap® Value Index	1.22	19.47	1.60	7.82	7.55	12.29	9.70
Russell Midcap® Index	0.48	21.93	3.19	10.69	9.10	13.07	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
Semi-Annual Report 31 Mar 2019[1]	1.21	1.09	0.99
Prospectus 30 Sep 2018[2]	1.20	1.05	0.99

[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

While the Russell Midcap® Value Index finished the third quarter up a modest 1.22%, that overall performance disguises a notable rebound from mid-August, when the index was down as much as 5.27%. Not only were markets pricing the prospect of slowing earnings growth—2019 earnings growth estimates for the S&P 500® Index had fallen 1.50% after being as high as 6.00% in January—but they were also faced with rising geopolitical and macroeconomic risks. Long-dated interest rates plummeted as the 30-year US Treasury bond fell below 2.00% to the lowest yield on record. In such an environment, equity investors reacted as one might expect, favoring the liquidity of large caps and the relative safety of defensive and interest rate proxy sectors, in the three months to 30 September. In the index, real estate, utilities and consumer staples outperformed. Energy posted double-digit losses for the quarter, as crude oil prices fell, making it the worst performing sector in the benchmark index, followed by communication services and health care.

The degree to which changing interest rate levels are driving sector returns is striking. Year to date, the Russell Midcap® Utilities Index is -88% correlated to the 10-year US Treasury yield. It's not a surprise that utilities, with low-but-steady growth and relatively consistent earnings streams, should look more attractive when bond yields are low, but the strength of that historical relationship today far exceeds the -27% correlation over the 10 years since the financial crisis ended.

As interest rates have fallen to record lows, the highly correlated returns for utilities and real estate (another sector highly sensitive to Treasury yields) have dominated index returns. Over the last 12 months, the Russell Midcap® Value Index is up 160bps. The utilities sector returned 22.2% and real estate returned 17.9% over the same period. Together, these two sectors comprise 25% of the index, and they contributed 468bps to the index's total return. The remaining sectors produced -307bps of total return over the last 12 months.

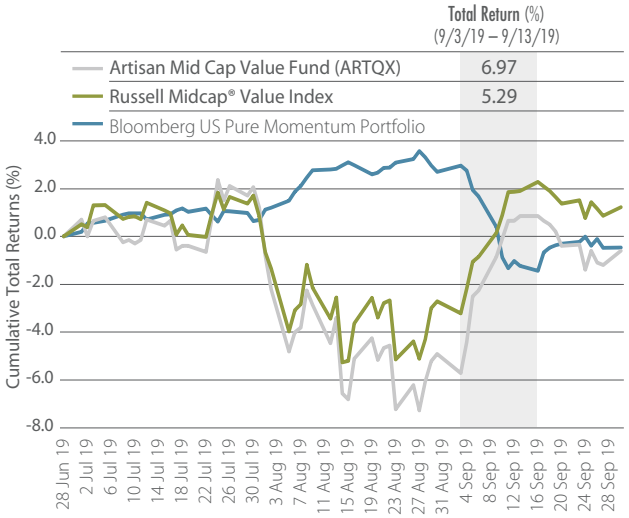
Performance Discussion

The preceding discussion is important context for understanding our Q3 performance because we hold no utilities and are significantly underweight real estate—exposures which weighed notably on relative returns. While we have been underweight these sectors for some time, their return profile has become increasingly correlated to changes in interest rates. And since these sectors occupy a quarter of the index, the index itself looks increasingly like a macroeconomic play. As stock pickers, we are highly cautious around stocks with prices that are influenced more by macroeconomics than by business fundamentals.

In addition to being stock pickers, we are disciplined value investors with three distinct margin of safety criteria: attractive business economics, sound financial condition and attractive valuations. As of 30 September, the Russell Midcap® Value Index was trading at a 16X PE multiple while the Russell Midcap® Utilities Index was 19X—the highest level since 2017. With bond proxies rich and getting richer, the individual firms in these sectors generally do not meet our investment criteria. And while the trend toward lower interest rates and historically high valuations seems firmly in place, early September's sharp move higher in Treasury yields offered a useful example of how our portfolio reacts when the momentum trade ends.

Exhibit 1 illustrates how our portfolio's return profile shifted drastically from negative to positive over the short period in early September when momentum stocks peaked and troughed. The momentum factor describes the component of equity returns driven by trend-following. Positive momentum stocks are those where recent price gains lead to future price gains. This is precisely the phenomenon underway in the bond proxy sectors as interest rates are trending lower and investors are piling in, seeking yield however they can get it, seemingly undeterred by historically high valuations. When the 10-year Treasury surged 45bps from 1.45%, its YTD low, on 3 September to 1.90% on 13 September, the interest rate-driven momentum trade stalled out and the market briefly acknowledged that what you pay for a business' fundamental earnings power does matter. Not only did the value style outperform momentum in this period, our value style outperformed the index.

Exhibit 1: When Momentum Ends



Source: Bloomberg/Artisan Partners, as of 30 Sep 2019. **Past performance does not guarantee and is not a reliable indicator of future results.** An investment cannot be made directly into an index.

At the individual stock level, automobile retailer AutoNation was the top contributor in Q3. Distinct from the cyclical pressures globally for autos, the US car market is in a relatively better position. AutoNation's advantage is in its variable cost model. The predictable, high-margin parts and service business is growing. In addition, shareholders appreciated recent C-suite changes, and the company's renewed emphasis on cost controls has supported the margin-focused efforts—a welcome surprise for investors.

Globally integrated chemicals and advanced materials producer Celanese was also a top contributor. Despite weakening demand from the auto sector and China, the project pipeline generated better revenue than the market expected, with noticeable margin improvement. Couple the strong fundamentals with strong free cash flow and a solid balance sheet, and we believe Celanese is positioned to win through the cycle. Along with the strong balance sheet, a backlog of projects and strategic investments in new capacity, not only is Celanese prepared for cyclical lulls, but also for when global industrial production may pick up again in earnest.

The roadmap for the Restock Kroger initiative found some footing in Q3 after a tough first half to the year for supermarket chain Kroger, another top contributor to relative returns. Concerns that 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 have kept investor expectations in the discount aisle. Despite quarterly volatility in investors' expectations of Kroger's earnings, we believe the business remains in a strong competitive position with an undemanding valuation.

Construction services firm Fluor was the portfolio's top Q3 detractor. Since the CEO's abrupt departure in May, Fluor's share price had been under pressure as the company's long turnaround effort tested investors' patience. When we consider the cash outflows we forecast will be necessary to deal with a multitude of problem projects, the balance sheet looks to be more levered than the headline numbers suggest. Additional uncertainty around further write-downs and several large fixed-cost projects in the backlog are also likely to weigh on the balance sheet. With growing leverage and increasing risks of further write-downs, our view on the business materially changed. After starting to pare our holdings last year, we fully exited this position as of September 30.

Another top detractor, tier-one auto parts supplier Delphi Technologies, has suffered from cyclical headwinds in European and Chinese auto markets, as well as possible weakness in the commercial (i.e., trucking) segment. The market continues to have what we consider a misunderstanding of Delphi's long-term prospects. At the same time the company's end markets are weakening, it is ramping up two new, rather large programs in gasoline direct injection and power electronics. These programs are loss-making now, but as they scale, should earn strong returns for the business. At the same time, the company is rolling off expensive shared service agreements from former parent Aptiv. The new CEO is very focused on execution, which is where the old management team dropped the ball. In time, we think Delphi's end markets will stabilize, these new programs will improve margins, and looking out a few years, earnings and cash flow will recover and lead to a material re-rating in the company's shares.

Multimedia giant CBS was also among the top-five detractors in Q3. While scale advantages and synergies can result in some cost savings, the Viacom-CBS merger is weighing on the stock price. We like that the deal was executed at no premium and expect the combined company's free cash flow to hold up better than the market anticipates. Viacom's movie studio business is undervalued inside the combined company, we believe, and could unlock value for shareholders should profits at the studio continue to improve.

Portfolio Activity

We did not add any new names to the portfolio in Q3, but we did close several positions. In addition to Fluor, we sold Cimarex Energy and Apache, both independent energy firms.

For Cimarex, we did not entirely support management's new-found desire for M&A. Through recent discussions with management, it became painfully apparent there was basically no price at which the company would buy back its shares. As a result, we felt management's future focus on capital allocation would not be in our favor as shareholders.

Apache has tied the long-term prospects for the company to the price of domestic natural gas, a figure that has been in steady decline for many years due to oversupply. Despite having a long ownership history in the company, we sold our position with the intention of allocating capital to businesses that have more control over their destinies.

We also closed our position in television and online retailer Qurate (parent company of QVC and HSN). The laundry list of negatives for this name continued to get longer: margin pressure, demand headwinds, weaker free cash flow, etc. When we bought this company in its original iteration, QVC, we loved the nature of the TV shopping business. It's capex-light, and inventory can be managed in practically real time, which, along with a relatively small expense base, means generally high profits and consistent free cash flow. This core business model remains an attractive investment opportunity, even if it faces competitive headwinds. Unfortunately, we didn't own only the base business anymore. Over the past few years, Qurate has mis-stepped through a couple acquisitions which had been within our tolerance levels. But management's decision to expand into digital sales and distribution concerned us as investors. It's just not a good transition given Qurate's core competencies. The problems are numerous: It's expensive (i.e., sky-high customer acquisition costs), price transparency is higher than TV and overall prices lower (i.e., margin pressure), customers exhibit less loyalty, and the capital requirements are more intense. Our view is that Qurate is increasing business and execution risks by embarking on the transition to the digital retailing business, and we exited the position.

Perspective

Our portfolio construction is rooted in a conscientious, risk-aware stock selection process that emphasizes margin of safety. The result is a stable of stocks that look very different from the index. We believe these companies are differentiated because of the sensible way they deploy and allocate capital, the strength of their balance sheets, and

how they run the businesses for long-term value creation. We want to be aligned with these types of companies, especially at this point in the cycle when elevated prices pervade.

Despite recent headwinds to our style and strategy, we have continued to stick to our philosophy of owning better businesses with solid balance sheets that are trading at cheaper valuations. While there are many areas of the market that are quite uninteresting from a valuation perspective, there are also some priced with substantive margins of safety due the effects of cyclicality and controversy. Our ability to look through negative fluctuations in investor sentiment and focus on the health of the business is what makes our process time-tested and relevant.

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. The Russell Midcap® Utilities Index is an index of those utilities companies in the Russell Midcap® Index. S&P 500® Index measures the performance of 500 US companies focused on the large-cap sector of the market. Bloomberg US Pure Momentum Portfolio Total Return measures performance of the momentum factor in Bloomberg's US Equity model. This factor tracks stocks based on trailing 1-year price performance and is not a financial benchmark. 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 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 30 Sep 2019: AutoNation Inc 3.5%; CBS Corp 1.8%; Celanese Corp 4.1%; Delphi Technologies PLC 1.2%; 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.

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Free Cash Flow is a measure of financial performance calculated as operating cash flow minus capital expenditures. **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. **Price-to-Earnings (P/E) Ratio** measures how expensive a stock is. Earnings figures used for FY1 and FY2 are estimates for the current and next unreported fiscal years.

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