Artisan Mid Cap Fund

QUARTERLY
Commentary

Investor Class: ARTMX | Advisor Class: APDMX | Institutional Class: APHMX

As of 31 December 2019

Investment Process

We seek to invest in companies that possess franchise characteristics, are benefiting from an accelerating profit cycle and are trading at a discount to our estimate of private market value. Our investment process focuses on two distinct elements—security selection and capital allocation. We overlay our investment process with broad knowledge of the global economy.

Security Selection

We seek to identify companies that have franchise characteristics (e.g., low-cost production capability, possession of a proprietary asset, dominant market share or a defensible brand name), are benefiting from an accelerating profit cycle and are trading at a discount to our estimate of private market value. We also assess key environmental, social and governance (ESG) issues that could impact future stock returns. We look for companies that are well positioned for long-term growth, which is driven by demand for their products and services, at an early enough stage in their profit cycle to benefit from the increased cash flows produced by the emerging profit cycle.

Capital Allocation

Based on our fundamental analysis of a company's profit cycle, we divide the portfolio into three parts. Garden℠ investments are small positions in the early part of their profit cycle that may warrant more sizeable allocations as their profit cycle accelerates. Crop℠ investments are positions that are being increased to a full weight because they are moving through the strongest part of their profit cycles. Harvest℠ investments are positions that are being reduced as they near our estimates of full valuation or their profit cycles begin to decelerate.

Broad Knowledge

We overlay the security selection and capital allocation elements of our investment process with a desire to invest opportunistically across the entire global economy. We seek broad knowledge of the global economy in order to find growth wherever it occurs.

Team Overview

We believe deep industry expertise, broad investment knowledge, a highly collaborative decision-making process and individual accountability are a powerful combination. Since the inception of the team, we have been committed to building a team of growth investors that retains these attributes and is solely dedicated to our process and approach.

Portfolio Management

Matthew H. Kamm, CFA
Portfolio Manager (Lead)

James D. Hamel, CFA
Portfolio Manager

Craigh A. Cepukenas, CFA
Portfolio Manager

Jason L. White, CFA
Portfolio Manager

Investment Results (%)

As of 31 December 2019	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception
			Average Annual Total Returns				
Investor Class: ARTMX	**7.19**	**38.12**	**38.12**	**16.89**	**10.10**	**13.72**	**13.35**
Advisor Class: APDMX	**7.21**	**38.47**	**38.47**	**17.07**	**10.26**	**13.80**	**13.38**
Institutional Class: APHMX	**7.26**	**38.45**	**38.45**	**17.17**	**10.36**	**14.00**	**13.59**
Russell Midcap® Growth Index	8.17	35.47	35.47	17.36	11.60	14.24	9.10
Russell Midcap® Index	7.06	30.54	30.54	12.06	9.33	13.19	9.88

Source: Artisan Partners/Russell. Returns for periods less than one year are not annualized. Class inception: Investor (27 June 1997); Advisor (1 April 2015); Institutional (1 July 2000). 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	ARTMX	APDMX	APHMX
Annual Report 30 Sep 2019	1.19	1.04	0.96
Prospectus 30 Sep 2018[1]	1.18	1.05	0.96

[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

Positive developments in trade, better-than-expected earnings results and a resilient US consumer cleared some clouds of uncertainty over the market during Q4, pushing global equity markets to record highs. For the calendar year, the MSCI AC World Index erased all its 2018 losses, delivering the best total return in a decade. In Q4, emerging markets led, followed by US markets and non-US developed markets.

Global trade tensions escalated through most of 2019, though some positive developments during Q4 helped alleviate a bit of uncertainty. The USMCA agreement neared approval in the US Senate, and the US and China announced a phase 1 trade deal. While the jury is still out on a longer-term US-China trade resolution, the phase 1 deal signaled a ceasefire.

On the monetary policy front, central banks remained dovish, and benchmark interest rates remained low or negative globally. In October, the Federal Reserve cut its benchmark rate by 25bps for the third time in 2019, while announcing in December a pause on any further rate cuts until there is a meaningful change in the economic outlook—helping soothe investor nerves about an imminent recession.

Equity market strength was broad-based during Q4, with all MSCI AC World Index sectors posting positive returns. Information technology, health care and financials led, while utilities, real estate and consumer staples lagged. Growth stocks outperformed their value counterparts in 2019, helped by tailwinds of subdued GDP growth and low interest rates.

Performance Discussion

Our portfolio trailed the Russell Midcap® Growth Index and outperformed the Russell Midcap® Index in Q4. Relative weakness was concentrated among our information technology and consumer discretionary holdings. Conversely, relative strength was aided by our health care exposure and solid performances among our communication services holdings. We also benefited from a lack of exposure to materials and real estate—areas where we tend to find fewer companies meeting our criteria for franchise strength and compelling profit cycles.

For 2019 overall, both absolute and relative performance were solid, thanks primarily to security selection. Three of our four power alleys—where we have historically found areas of innovation and growth—led the way, with our information technology, health care and industrials holdings contributing to relative strength. Our cash position, though modest, was the primary relative detractor.

Turning to individual securities, among our bottom individual contributors in Q4 were Pagseguro Digital, Arista Networks and ServiceMaster. Pagseguro's shares had an excellent run in 2019 though gave back some gains as Q3 results (announced in Q4) did not live up to the Street's high expectations. The company indicated it is accelerating investments in PagBank—its recently launched mobile banking service—which will put pressure on near-term profitability. We believe this capital outlay is justified and expect the investments to yield an improved growth profile for the company longer term. We believe the secular tailwind toward digital payments in Brazil is in the early innings. Pagseguro's dominant market position and expanded banking-product offerings position it well to take share and stave off competition in a still-underpenetrated market for small and micro-sized merchants.

Arista Networks is the market leader for cloud networking equipment used in data centers for public, private and hybrid cloud deployments. An order slowdown from top customers Microsoft and Facebook has pressured the company's share price in recent quarters. While the Microsoft slowdown has since abated, the Facebook order pause is expected to be a headwind over the near term as Facebook expects to run its data centers at a higher utilization rate to cut costs. Given Arista's customer concentration, it is not surprising to see sales lumpiness from quarter to quarter, and we believe Facebook orders will pick back up later in 2020. Further, recent share gains in the corporate-campus networking market should contribute meaningfully to revenue growth longer term.

Shares of ServiceMaster, a provider of residential and commercial pest-control services, were pressured amid a trio of disappointing updates: the departure of the company's Terminix® franchise president, pending litigation related to termite damage and a step back in customer retention rates. While turnarounds are often not linear, the unknown magnitude of the legal liabilities and management turnover were not consistent with our thesis, and we exited our position.

Among our top individual contributors were Advanced Micro Devices (AMD), DexCom and Skyworks. AMD has recently taken a process lead over close competitor Intel and launched its second-generation EPYC server chips, which boast better performance at a lower price. The new chips already have an impressive slate of customer rollouts, including Alphabet, Microsoft, Amazon and Twitter. We believe the company has a substantial growth runway ahead given a solid product pipeline, and these higher-performance chips should drive AMD's margins up closer to industry peers, enabling substantial cash flow growth over time.

DexCom, a market leader for continuous glucose-monitoring systems (CGM), has recently made meaningful market-share gains both in the US and abroad as the company benefits from growing CGM demand, improving market access and growing manufacturing capacity. Furthermore, in late 2020, DexCom expects to launch its new G7 product—a slimmer, fully disposable CGM sensor—which we believe can open up the opportunity to gain share in non-insulin dependent type 2 diabetes and gestational diabetes, as well as in hospitals. We believe the growth runway ahead is significant given a sizable global market and the company's leading CGM technology portfolio.

Skyworks Solutions manufactures high-performance semiconductors for use in radio frequency (RF) and mobile communication systems, with applications in communications, consumer, automotive and industrial markets. Core to our investment thesis is Skyworks' attractive position to supply RF technologies to wireless networks and cellphone manufacturers as they shift from 4G to 5G. While this 5G product cycle is still just beginning to take hold (and has not been helped by the US-China trade war), we believe it will eventually result in a meaningful multi-year profit upswing for Skyworks. In the meantime, the company is compensating investors with share repurchases and strong free cash flow generation.

Portfolio Activity

We added Tradeweb Markets and CMS Energy to the Garden℠ in Q4. Tradeweb operates one of the largest global over-the-counter (OTC) electronic trading marketplaces for institutional, wholesale and retail investors and dealers. Tradeweb pioneered trading OTC financial products electronically in 1998 and currently operates across four asset classes—rates, credit, money market and equities. We believe the company should benefit from its leadership position within large and growing markets that are increasingly shifting transactions to electronic trading venues, which provide deeper liquidity, lower trading costs, greater transparency and risk management for both the buy and sell sides.

CMS is a regulated utility in Michigan supplying electricity and natural gas to the majority of the state's residents. The company is working to reduce its reliance on outsourced power generation from high-cost, carbon-intensive sources, in part by shifting to wind and solar energy, and is using the cost savings to invest in capital projects at attractive returns on investment. The franchise also fits nicely into our broader view that we are transitioning to a less carbon-intensive world as renewable energy sources have become an attractive lower-cost alternative to other forms of power generation. Given the company's dominant market position in Michigan, visible long-term earnings growth and strong management team, we believe it is well-positioned for a solid profit cycle ahead.

In addition to the aforementioned sale of ServiceMaster, we also ended our campaigns in Under Armour and Abiomed. Under Armour is a leading global developer, marketer and distributor of branded performance apparel, footwear and accessories for men, women and kids. We initiated our Garden℠ position in mid-2018 at an attractive valuation and under the premise a new COO would stabilize the brand, reignite sales growth and improve the company's margins. While Under Armour has stabilized its business during our campaign, the overall turnaround is going slower than we anticipated and the brand still needs to be rejuvenated to catch up to competitors Nike, Adidas, Lululemon, etc. Furthermore, recent news about the SEC investigating the company's accounting practices creates additional uncertainty we are unwilling to endure, and we decided to exit our position.

Abiomed is the leader in mechanical circulatory support devices to improve outcomes for high-risk cardiovascular patients. The company has a meaningful addressable market for its Impella® heart pump—used to treat right-ventricle heart failure—though it has recently struggled to drive adoption beyond early adopter clinicians and will likely need to recalibrate its go-to-market strategy over the near term. Furthermore, the FDA recently released unfavorable Impella® case studies, creating another hurdle for the company to overcome as it looks to accelerate adoption and utilization of its products. While Abiomed may successfully work through these issues over time, we decided to exit our position during the quarter in favor of more compelling health care opportunities in our pipeline.

We added to a number of our existing positions during the quarter including Zoom Video, Zscaler and Burlington Stores. Zoom Video's core fundamental drivers—new client momentum, expansion within existing customers and margin expansion—remain firmly in motion, and we capitalized on recent volatility to add to our position. We believe the company's technological lead, attractively priced and easy-to-use products and broadening platform—which now includes video conference, meeting rooms, Zoom Phone, and chat—position it well to capture additional share of the sizable corporate communications market.

Zscaler, a global cloud-based information security company that provides fast, secure connections between users and applications, has had modest growing pains this year that have held back returns. Management recently added a new chief revenue officer and stepped up its sales and marketing investments, which we expect will help reinvigorate the company's future growth potential. We believe Zscaler is well-positioned as security needs shift from on-premise data centers to the cloud and used the recent selloff to add to our Garden℠ position.

Burlington is a leading off-price retailer offering merchandise across an assortment of apparel, footwear, home, beauty and toys. Off-price retail has proven relatively immune to the rapid e-commerce market-share capture in recent years, given the reluctance of brands to sell discounted inventory online. We are particularly excited about the company's newly appointed CEO—a former executive at close competitor Ross Stores—who recently laid out a three-part plan to close the margin and store-productivity gaps relative to Ross and other large off-price retail chain, TJ Maxx. The plan calls for the company to expand and strengthen its merchant team and improve its ability to purchase inventory items in-season, both of which should drive higher revenue growth and improve profitability. We believe the plan is achievable and added to our position.

We trimmed our positions in Lululemon, Progressive and Wayfair in Q4. Designer and retailer of yoga-inspired apparel Lululemon has delivered strong results in recent years. We have held it as we anticipated its upgraded management team would strengthen all

operational functions—including supply chain, product design, e-commerce, digital marketing—and drive higher traffic in both brick-and-mortar and online stores. These efforts have borne fruit and have produced accelerating sales and profits. Furthermore, we believe the company's core women's athletic category as well as its newer initiatives (men's, international, casual wear) all have solid runways ahead. That being said, we believe these expectations are reflected in the share price today, and the company is unlikely to sustain the recent torrid pace of growth. We have learned it's best to use extra valuation discipline when it comes to retail growth stocks and have begun harvesting our position.

We continued harvesting our successful investment in Progressive. While the company's data and operational advantages position it well to gain profitable share of the personal auto and homeowners insurance markets longer term, we expect a moderating industry margin cycle will drive slower profit growth in 2020. We expect to rotate the proceeds into earlier-stage profit-cycle opportunities in our pipeline.

Trade tariffs are weighing on revenue growth and margins for Wayfair, whose products are mostly made in China. Furthermore, the company has expanded headcount as well as its advertising and logistics spend. Together, these factors are pushing the path to profitability out further than expected, reducing our conviction in the investment thesis. While we believe the long-term profit-cycle potential remains attractive, we lack visibility into when these headwinds may abate. We have pared our exposure, are reviewing our thesis and are prepared to pivot accordingly.

Portfolio Statistics

As of December 31, the portfolio had a median market cap of $16 billion and a 3-5 year forecasted weighted average earnings growth rate of 17%. Our holdings were selling at a weighted harmonic average P/E (excluding negative earnings) of 32X FY1 earnings and 28X FY2 earnings. As of quarter end, we held 65 positions. Our top 20 holdings accounted for roughly 53% of portfolio assets as of quarter end. Our top 30 holdings represented about 67% of portfolio assets.

Our ESG Journey

We view the increasing importance placed on environmental, social and governance (ESG) factors as one of the most notable investment management trends in recent years. Conversations with our clients, management teams of portfolio holdings and team members have suggested that "how business is conducted" is increasingly important. The business news media certainly took note of this trend in 2019, prompting widespread public discussion of the role of business in society.

While the consideration of ESG factors has always been an implicit part of our investment process—which is focused on identifying high-quality franchises with sustainable profit-growth drivers—we embarked on a journey at the beginning of 2019 to establish a more structured framework. We spent the first half of the year defining and understanding how we could more formally integrate ESG assessments in a way that complements our existing process without disrupting what's made our approach successful for nearly 25 years.

This journey has led us to a two-stage framework that pairs with our existing research and capital allocation process. For new investment ideas, as we work to vet a company's franchise strength and profit-cycle catalysts, we are now explicitly identifying key "ESG issues that matter" facing the business. In this stage, we're seeking to understand key ESG risks and opportunities that could impact future stock returns.

If and when a stock is added to the Garden℠, a new phase of our research begins. As always, we will continue to deepen our understanding of the franchise and profit-cycle dynamics, seeking to build conviction in (or disprove) our investment thesis before adding the stock to the Crop℠ by committing significant capital. In parallel, we are now adding layers to our ESG research, with the goal of developing a good sense of whether we're willing to partner with this company by the time a stock is ready to enter the Crop℠ (we're calling this stage our "partnership check").

In addition to this more formal ESG research (which we view as quite complementary to our existing process), we are beginning to selectively engage with portfolio holdings on ESG issues. While we plan to learn and evolve in this area, we suspect our perspectives on topics such as executive compensation, corporate governance, social responsibility and environmental impact will help companies improve their performance in these areas over time, which we expect can contribute positively to share-price performance.

ESG is broad and complex, and we are taking an open-minded, humble approach to our efforts. In addition to this being the right thing to do (in our opinion), we believe there is potential to enhance our assessment of investment risk and reward. For example, our work this year on climate change has already made us better appreciate the profit-cycle opportunities for companies that may stand to benefit from global efforts to reduce emissions or manage the impact of those emissions—including Cree (electric vehicle supplier), Trimble (technology enabler of more efficient agricultural and construction processes) and CMS Energy (a utility whose long-term profit growth is being supported by a steady shift toward clean energy sources). We also see increasing evidence that stock valuations are being influenced by investors' perceptions of whether a business is on the good or bad side of ESG issues. And as we reflect on our team's first 25 years of stock-picking, we look back on some of our least successful investments and suspect that more rigorous considerations of ESG factors could have helped us (and our shareholders) avoid some painful mistakes.

We will be open about our ESG journey as we go and look forward to providing updates and specific examples of our research and engagement in future letters.

Perspective

Renewed investor optimism drove equity markets to record highs in late 2019, delivering the best global returns in a decade. Mid-cap growth stocks distinguished themselves relative to virtually all other areas of the market. We continue to feel our team's foundational focus on mid-cap growth has been validated. Mid-cap stocks sit in the sweet spot of the market, in our view, presenting a compelling intersection of high-quality, scaled franchises with ample growth runways (and nimble cultures and management teams).

While very few years will prove as fruitful for equity returns as 2019, and while global macro headwinds certainly remain present, we continue to find opportunities in a number of sectors—including industrials, health care and information technology. Industrials overall were volatile through most of 2019 as recession fears ebbed and flowed; however, holdings such as Roper Technologies, Trimble and Fortive are executing strategies to steadily move toward higher levels of recurring revenue and software content. The steady shift away from cyclical hardware sales gave us the confidence to hold steady during the volatility and take advantage of more attractive prices to increase exposure to these franchises.

Health care stocks were also subject to volatility during 2019, largely the result of uncertainty around the insurance industry and pharmaceuticals pricing as we near the 2020 US elections. We maintained our discipline, focused on the underlying profit-cycle drivers and built conviction where appropriate—again, taking advantage of volatility to add to a number of our positions. These efforts paid off in Q4 as investor nerves about the election and a single payor system settled.

Our information technology holdings posted the best absolute and relative performances for our portfolio in 2019. While software stocks underperformed in Q4, we used the volatility to add to a number of our positions (Zoom, Zscaler, Hubspot, Atlassian). We continue to believe there is a generational shift in how software is deployed and consumed, creating opportunities for sustained strong growth within well-positioned cloud franchises. The centralization of computing capacity into big cloud providers has dramatically lowered the cost of software systems and increased developer flexibility. Further, the proliferation of mobile devices has significantly lowered software consumption barriers—driving more business and consumer use cases. While lofty software valuations have garnered a lot of attention, we believe the leading franchises in our portfolio are attractive given their durable cash flow generation and proven abilities to extend their growth runways via new product introductions.

While industrial tech, health care innovation and cloud software have been long-standing trends in the portfolio, we began seeing opportunities in a newer trend in 2019: clean energy. We believe we are in the very early innings of a transition to a less carbon-intensive world, which should ramp quickly in the coming years. Technology improvement and capital-cost declines have improved wind and solar economics, making them very attractive energy sources relative to nuclear, coal and natural gas. We believe renewable energy is likely to lead to a transformation in power generation in the coming decades. While holdings such as First Solar, CMS Energy and Cree are relatively small today, we expect this trend to feature more prominently within the portfolio over time.

While many macro concerns subsided during Q4, trade tensions, political instability and slowing GDP growth still pose risks to the current bull market. We have no unique ability to project whether these risks or others will come to fruition in 2020, and we remain less interested in businesses for whom global GDP growth is the primary catalyst. We continue to focus on finding high-quality franchises with secular and internal drivers of multi-year profit cycles and think these investments should continue to be preferred within a slow-growth global economy. Even within a very strong year for equity returns, 2019 featured a number of volatile swings for the market and for specific sectors. We have cited examples of our team's ability to use that volatility to our advantage and will look to do the same in 2020.

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. Growth securities may underperform other asset types during a given period.

Russell Midcap® Growth Index measures the performance of US mid-cap companies with higher price/book ratios and forecasted growth values. Russell Midcap® Index measures the performance of roughly 800 US mid-cap companies. 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 Dec 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 comprise the following percentages of Artisan Mid Cap Fund's total net assets (including all classes of shares) as of 31 Dec 2019: Atlassian Corp PLC 3.6%, Advanced Micro Devices Inc 2.9%, DexCom Inc 2.4%, HubSpot Inc 1.6%, Zoom Video Communications Inc 1.5%, Burlington Stores Inc 1.5%, Arista Networks Inc 1.4%, Skyworks Solutions Inc 1.3%, Pagseguro Digital Ltd 1.2%, First Solar Inc 1.1%, lululemon athletica inc 1%, Zscaler Inc 1.0%, Cree Inc 0.9%, The Progressive Corp 0.6%, Wayfair Inc 0.5%, CMS Energy Corp 0.5%, Tradeweb Markets Inc 0.4%, Roper Technologies Inc 2.2%, Trimble Inc 1.3%, Fortive Corp 1.7%. Securities named in the Commentary, but not listed here are not held in the Fund(s) 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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Portfolio statistics are obtained from various data sources and intended to provide a general view of the portfolio, or Index, at a point in time. Artisan Partners excludes outliers when calculating portfolio characteristics and may use data from a related security to calculate statistics if information is unavailable for a particular security. **Median** is the data's midpoint value. **Weighted Harmonic Average** is a calculation of weighted average commonly used for rates or ratios. **Weighted Average** is the average of values weighted to the data set's composition. **Market Cap** is the aggregate value of all of a company's outstanding equity securities. **Earnings Growth Rate** is the annual rate at which a company's earnings are expected to grow. **Price-to-Earnings (P/E)** is a valuation ratio of a company's current share price compared to its per-share earnings. **Private Market Value** is an estimate of the value of a company if divisions were each independent and established their own market stock prices. **Free Cash Flow** is a measure of financial performance calculated as operating cash flow minus capital expenditures.

Our capital allocation process is designed to build position size according to our conviction. Portfolio holdings develop through three stages: Garden℠, Crop℠ and Harvest℠. Garden℠ investments are situations where we believe we are right, but there is not clear evidence that the profit cycle has taken hold, so positions are small. Crop℠ investments are holdings where we have gained conviction in the company's profit cycle, so positions are larger. Harvest℠ investments are holdings that have exceeded our estimate of intrinsic value or holdings where there is a deceleration in the company's profit cycle. Harvest℠ investments are generally being reduced or sold from the portfolios.

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

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