



Artisan Value Fund

QUARTERLY
Commentary

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

As of 31 March 2020

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 31 March 2020	Average Annual Total Returns						
	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception
Investor Class: ARTLX	-28.53	-28.53	-17.80	-3.95	1.02	6.09	4.51
Advisor Class: APDLX	-28.53	-28.53	-17.73	-3.82	1.15	6.16	4.56
Institutional Class: APLX	-28.49	-28.49	-17.68	-3.74	1.24	6.31	4.66
Russell 1000® Value Index	-26.73	-26.73	-17.17	-2.18	1.90	7.67	4.82
Russell 1000® Index	-20.22	-20.22	-8.03	4.64	6.22	10.39	7.21

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	APLX
Annual Report 30 Sep 2019	1.06/—	0.93/0.88 ^{1,2}	0.84/—
Prospectus 30 Sep 2019 ²	1.07/—	0.94/0.89 ¹	0.85/—

¹Net expenses reflect a contractual expense limitation agreement in effect through 31 Jan 2021. ²See 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

The first quarter of 2020 was one of superlatives. We entered an *unprecedented* period. There were *firsts* and *worst*s; *fastests* and *furthest*s. The *novel* coronavirus became a pandemic. Financial market price swings were *historic*. Government responses were *swift* and *consensus-shattering*.

In a quarter that included a *breakneck* equity market correction and *record-setting* single-day price moves—both up and down—the Russell 1000® Value Index fell 26.73%. No sector was spared. Energy, the index's worst performing sector, dropped 51.27% as crude oil prices hit 17-year lows amid a Russo-Saudi price war and collapsing demand for refined products.

Shelter-in-place orders and social distancing protocols are simultaneously crippling the demand and the supply sides of the economy. While traditional consumer behaviors are being upended, the market still reacted as we might expect in any run-of-the-mill recession: Cyclical underperformed non-cyclicals. The consumer discretionary sector was among the worst performers in the index, as were financials. Defensive sectors—utilities, health care, consumer staples—were top performers.

In some sense, despite all the overwhelming change, the more things change, the more they stay the same. Economic cycles come and they go. Exogenous shocks push markets and business models to the brink; some break, others survive, and we revert to the mean over time. The business of investing—the business of taking stakes in the equities of publicly traded companies, with the explicit goal of investing capital to get a better return for the risk being borne—has not and will not change as a result of COVID-19. This is why we have a process and stay disciplined to it. Amid conditions where fear is heightened, where economic uncertainty is as high as we have ever seen it, where current earnings are just a guess by even the smartest analysts, a disciplined process is what separates professional investors from speculators. And while we concentrate on periods well beyond the next 12 months, a major near-term, even short-lived shock that resets base earnings power has major implications for the long-run fundamental economics of a business. More on that in our Perspective section.

Performance Discussion

Our portfolio underperformed the benchmark, led lower by holdings that are acutely affected by the pandemic and the public health policy response to it. Markets were overwhelmed by uncertainty as the economic outlook shifted rapidly, almost overnight. Stakes in materials and industrials names detracted most from relative returns at the sector level. With a global recession looking increasingly likely, our holdings with exposure to industrial activity (e.g., chemicals), air travel or logistics, and consumer and commercial banking dragged on returns. Consequently, high-beta names Synchrony Financial, Citigroup and airplane leasing firm Air Lease Corp were the portfolio's top detractors.

We're stock pickers, and sector allocations are merely the byproduct of our fundamental research and rigorous stock-selection process. Sometimes, our bottom-up approach works for us when it comes to sector allocations, as it did by being underweight energy. Despite trying to live within their cash flow means, energy companies have for some time struggled in their changing operating environment. Fundamentals have been weak, and with too many wildcards in play, we brought our exposures down over the past year and now hold only a single name in the sector. Our views proved prescient as the industry met a demand shock and geopolitical battle for supply dominance in Q1.

Consumer staples was a relatively well-off sector, and our top individual contributor was tobaccoist Swedish Match. Strong brand recognition translates into a sizeable moat. Management was able to exceed the market's high expectations for Q4 earnings; margins remain robust and free cash flow grew notably year over year. Not only did Swedish Match generate more cash in absolute terms, it has done so on a per share basis. An active share repurchase program alongside higher dividends has generated value for shareholders.

Perspective

The Q1 market selloff was broad-based and intense, fueled by deep uncertainty about the pandemic's true threat. In our view, the market did little to discriminate among individual firms, preferring to re-rate sectors given the short timeframe, rapid price action and lack of information.

Of course, our process is built to capitalize on market dislocations, when fear and uncertainty dominate, as is the case in our current environment. But we are also vigilantly risk-aware. This is where a thoughtful and repeatable process makes all the difference.

Clearly, the markets are navigating a series of risks for which history is a poor guide. We can't reasonably draw on prior experiences because there are none. Without a reliable empirical guide, we are operating with a high level of intellectual honesty about what we do know, about what we might not know, about what we can know, and about what we can't know all that well. Working within our process, we focus on understanding the range of potential outcomes and look for opportunities where the asking price today tilts in our favor. And currently, the range of outcomes may never have been wider in our time as professional investors. Not only is the range wider, the left-tail of the distribution—the one with the worst outcomes—is fatter than usual; the right-tail of the distribution—the one with the best outcomes—may not be similarly wide.

Dispersion and skewness are useful statistical concepts, but like any tool, only as good as the skill and judgment of the analyst. These objective tools can help to push emotion and cognitive biases aside, but we don't approach the opportunity set with a math-explains-all

approach. Rather, we use statistics to amplify our judgment. Our probabilistic thinking is one prime example.

Investing is not gambling, but they share some common traits. Consider a pair of fair, six-sided dice. If you were offered a chance to wager on the outcome of a roll of those dice, you absolutely must first know how many outcomes are possible: 11 with 36 possible combinations. We think exhaustively about the paths and permutations an out-of-favor stock can take. But what makes the current environment particularly challenging is that the game isn't with two dice. Now, it's more like a three-dice game, with 16 outcomes, across 216 combinations.

Going to 16 outcomes from 11 certainly raises the level of difficulty. When the range of outcomes widens even modestly, the possible combinations expand exponentially. This intuition is simple, but powerful. If you focus only on the range of outcomes and ignore the complexity in the combinations of paths that get you there, then you could be left bearing unintended risks. Consider how a company not only needs resilience in this economic downturn, its survival may depend on bridging a liquidity gap, which means navigating a dysfunctional financing market where central banks are now the activist investor. Such a path is complex and fraught with uncertainty. Given those conditions, a risk-aware value investor must recognize this and adjust valuations and expectations accordingly.

Our process relies on investing with a margin of safety. Those safety elements aren't foolproof in times like these or under these conditions, but they are intellectually honest, based on sound principals and time-tested. Let's discuss what this meant in practice.

Portfolio Activity

We were more active in the portfolio in the first quarter than in a typical quarter. We added four new names to the portfolio, including multinational hospitality company Marriott International, global multi-line insurer Arch Capital, aerospace duopolist Airbus and the industrial conglomerate United Technologies.

Marriott International is a global operator and franchisor of hotels. After merging with Starwood in 2016, Marriott became the world's largest hotel company and rewards program owner. Its iconic brands are known and trusted worldwide, by vacationers and business travelers, predominantly in the upscale and upper upscale hospitality segments. By leveraging its scale and reach, Marriott drives cost savings for hotel owners and improves guest experiences. In addition to new unit growth, management is focused growing revenue per available room (RevPAR), which can vary by location. Marriott's exposure to the top revenue per available room markets is nearly double the next closest competitor. It is intuitive to assume a company like Marriott is a massive property owner, but that is not the case. It operates an asset-light model, franchising the Marriott name and providing management services and operational expertise to outside owners who use one of their flagship brands. Marriott's balance sheet is healthy with reasonable leverage and adequate

interest coverage. Management has also recently taken proactive steps in an effort to fortify the balance sheet to outlast the current environment. The company reliably generates cash in most economic environments but suffered considerably under the strains of the COVID-19 pandemic. From its all-time high price in December 2019, the stock had fallen 28% by the time we initiated our position. The P/E multiple also collapsed from the mid-20s to the high teens, which offered a sufficient margin of safety in our estimation, to take on the position. It may be tough to see right now, but travel will likely pick up again, both personal and professional. It's exemplary of our process when the discounts are large enough to acquire an iconic, long-lived global franchise with competitive advantages to peers, value-conscious management, a flexible financial structure and cash-producing capabilities.

European aerospace manufacturer Airbus is one of two global firms in the commercial airliner market. US-based competitor Boeing recently had problems with its narrow-body 737 Max, and Airbus was well-positioned to seize on just such an opportunity. With higher seat density, better range and better fuel economy, its A320neo has better unit economics than Boeing's 737; Airbus had already been taking market share. We think that likely continues during, and after, the pandemic. With travel restrictions and a general sense of fear keeping planes grounded, Airbus' stock price fell to undemanding levels. We expect the underlying business to be resilient. For one, customers have long delivery horizons. They also pay up front. Customers put 25% down 2 years ahead of delivery, which tends to stave off cancellations. Newer models are more economical for operators than older ones, so airlines like updating their fleets. This structural, longer-term demand for the product has led to a strong backlog. Leverage is more than manageable, and even if it takes several years for airplane demand to normalize, Airbus should be able to improve profitability. Two of its five models are profitable now, one model is being discontinued, and the remaining two planes were on track for breakeven this year. Management has proved to be savvy, even across personnel changes, which helps minimize execution risk. For example, chastened by the 2008-2009 financial crisis, the company acquired a bank to serve as an in-house financing operation and custodian of corporate cash. This bank has access to the ECB, giving Airbus increased flexibility in a crisis. This is a name we spent the better part of a year researching, so we were prepared to act when the valuation came to us.

We swapped our shares in global insurer Chubb for global insurer Arch Capital. This is a company we are very familiar with, having held it in our mid-cap strategy since 2002. Arch has an admirable business position and management team with a great track record of building shareholder wealth. However strong our admiration, Arch is facing a bounty of issues in this pandemic environment. A highly accretive 2016 acquisition of mortgage insurer United Guaranty vaulted Arch into position as a leading provider of mortgage insurance in the US. Rising unemployment is weighing on the mortgage market, from underwriters and servicers to the insurers. Direct government support

for the likes of Arch may not be forthcoming. Management is prudent, but uncertainty is very high for this business, which corresponds with a low price. We count this situation as among those that exemplify the challenge of investing amid a rising range of outcomes.

Raytheon, which we have held since Q1 2019, was on track to complete its merger with United Technologies. The combined company plans to spin off its non-aerospace subsidiaries. During the first quarter market selloff, we saw an opportunity not only to increase our Raytheon position by purchasing United Technologies at a discounted price, but also a chance to get a foothold in the spinoffs, with particular emphasis on elevator manufacturer and service provider Otis.

We completely closed positions in independent oil and gas firm Devon Energy, engineering and construction company Jacobs Engineering, property & casualty insurer Chubb, and chemicals manufacturers Dow and Nutrien.

With economic conditions deteriorating and fear and uncertainty dominating market prices, our flurry of activity may come as a surprise. It shouldn't. We devote our time to researching companies and building a bench of cash-producing businesses in strong financial condition. When valuations reach undemanding levels and we are comfortable with the margin of safety, we are agile and opportunistic. We work precisely so we can be very active in these investment environments. This, we believe, is the best way to build a portfolio of long-term compounders and create value for our investors.

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.

Current and future portfolio holdings are subject to risk. 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. 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 2020. 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 Fund's total net assets as of 31 Mar 2020: Artisan Value Fund—Citigroup Inc 3.2%, Air Lease Corp 3.0%, Swedish Match AB 2.0%, Synchrony Financial 2.6%, Raytheon Co 2.6%, Marriott International Inc 2.3%, Arch Capital Group Ltd 2.2%, Airbus SE 1.7%, United Technologies Corp 1.5%; Artisan Mid Cap Value Fund—Arch Capital Group Ltd 3.2%. 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.

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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)** is a valuation ratio of a company's current share price compared to its per-share earnings.

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