Artisan Mid Cap Value Fund

QUARTERLY
Commentary

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

As of 30 June 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 30 June 2020	QTD	YTD	Average Annual Total Returns 1 Yr	3 Yr	5 Yr	10 Yr	Inception
Investor Class: ARTQX	**25.14**	**-18.45**	**-14.38**	**-2.04**	**1.49**	**7.88**	**8.54**
Advisor Class: APDQX	**25.22**	**-18.40**	**-14.24**	**-1.91**	**1.63**	**7.96**	**8.57**
Institutional Class: APHQX	**25.29**	**-18.34**	**-14.18**	**-1.82**	**1.72**	**8.09**	**8.64**
Russell Midcap® Value Index	19.95	-18.09	-11.81	-0.54	3.32	10.29	8.53
Russell Midcap® Index	24.61	-9.13	-2.24	5.79	6.76	12.35	9.06

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 2020[1]	1.22	1.07	1.00
Prospectus 30 Sep 2019[2]	1.21	1.07	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

Stock markets produced their best returns in decades. In Q2, the S&P 500® Index returned 20.54%—its best since 1998. The Dow Jones Industrial Average® Index returned 18.51%—its best since 1987. Our benchmark, the Russell Midcap® Value Index, returned 19.95%—its best since 2009. Our humility doesn't preclude us from mentioning here that we had our best quarter of absolute and relative returns on record. More on that to follow.

Yes, these record returns came after a record selloff, but Q2's investing environment was more than just a sharp bounce. The VIX Index®, a measure of stock market volatility, remains elevated, suggesting we may be in a new volatility regime (Exhibit 1). For the 10 years prior to this one, the VIX Index averaged 16.86. That post-crisis decade could fairly be described as a period of low and stable market volatility, though not without the occasional flare-up. When the S&P 500® Index peaked on February 19, the VIX Index had averaged 14.34 YTD. But by the time the markets were in full panic over the pandemic, volatility had surged to a record high 82.69. As uncertainty remained high in Q2, so did volatility: The VIX Index averaged 34.49 over the period, falling no lower than 24.52 in the quarter. Elevated volatility persists.

Exhibit 1: VIX Index YTD

Source: Bloomberg/Artisan Partners. **Past performance is not indicative of future results.**

We tend to view our process as one that can flourish in times of elevated volatility because, if nothing else, the opportunity set improves. Our emphasis on intellectual honesty and diligence in identifying great businesses at good prices mean we can—in these periods of elevated uncertainty—improve our chances of achieving value-compounding outcomes over time. How? Well, high market volatility is the same as low market certainty. Low certainty over future cash flows. Low certainty over the multiple to put on those cash flows. Low certainty over the potential range of outcomes, generally. When certainty is low, the probability for mistakes is higher, making our margin-of-safety criteria more valuable. Our process amplifies our risk awareness as the market is itself becoming riskier.

We like to think about investing environments as either risk-seeking or risk-fearing, rather than bull or bear. And for the past few years, markets have had a decidedly risk-seeking feel, leading to excesses in growth and defensive stocks, simultaneously. We don't take a hard stance on which is appropriate at any given point, and instead look for attractive businesses selling at undemanding prices at every point. But as we sum up the Q2 investing environment, there was at least one other noteworthy development in this risk-seeking market.

Another market peculiarity has been the stunning rise in the special purpose acquisition vehicle (SPAC). SPACs are listed companies, but they have no actual business. Nonetheless, business is booming. As an indication of how hot this market is, look no further than its latest entrant: Billy Beane, Oakland Athletics executive and star of the Michael Lewis book *Moneyball*. Not necessarily the profile of a capital allocator. Of course, Mr. Beane surely knows how to find undervalued baseball talent. But is that track record a better predictor of his potential as an investor than his team's playoff records? Time will tell.

The declared special purpose of these vehicles is to pool capital and then invest it. That sounds vaguely familiar. However, the sponsors offer investors little in the way of how or where or with whom they'll do this investing. "Blank Check" entities provide potential investors with no business to evaluate—no verifiable financial statements, no knowledge of the management team or governance structures, not even a clear sense of the industry or economic sector exposure. Taking stakes in these vehicles outsources critical investment decisions, which is categorically different from investing with proven allocators who have track records of compounding value for shareholders, and it's antithetical to our approach to evaluating companies.

Performance Discussion

Q2 2020's performance was the portfolio's best on record, in both absolute and relative terms, led by strong performances from consumer discretionary and communication services names. The Russell Midcap® Value Index returned 19.95%, led primarily by contributions from the energy and consumer discretionary sectors. Every sector in the index posted double digit returns, except utilities, making our zero weighting there a relative contributor. Above-benchmark exposure to financials and below-benchmark exposure to energy dragged on relative returns.

The market's strength in the consumer discretionary category was certainly a function of improved sentiment and rising spending coming off a major collapse. But our outperformance in this sector was not the result of any macroeconomic call. We're stock pickers, and our eclectic consumer discretionary holdings reflect the strength of our investment process, not a blanket call on consumer behavior.

We are almost triple-weighted the consumer discretionary sector versus the index yet don't own any of the traditional apparel or multi-line retailers, which are popular in growth investor circles. We have very few of the specialty retailers, except AutoNation (and this is a car dealer). We own two iconic hotel and leisure brands in Marriott and Vail, and we don't own any of the traditional household durables companies. In addition, we have a RV maker in Thor, an asset-light online travel agency in Expedia, two highly profitable auto components manufacturers in Borg Warner and Gentex, and the

world's largest tax preparer in H&R Block. We have exposure in the sector for good reason: These are all very attractive businesses. One of the new purchases this quarter which doesn't officially get labeled as a consumer discretionary name—yet absolutely is one in our minds—is Electronic Arts.

The top contributors to returns were Thor Industries, IAC/InterActiveCorp, Analog Devices, Expedia and AutoNation.

With a resilient business model built to handle cyclicality, recreational vehicle manufacturer Thor was the top contributor in Q2. Despite a pandemic-forced halt to production and subsequent fall in top-line revenues, the company's variable cost model was on full display this quarter. Investors were rewarded with improved margins, strong free cash flow generation and debt reduction. Prior to the COVID-19 pandemic, the stock had fallen out of favor as an inventory bubble, uncertainty surrounding a large European acquisition and increasing leverage were fueling skepticism. We viewed these factors as temporary. In a normalized environment, this is an industry-leading business with strong return on capital, consistent free cash flow and sensible capital allocation. Steady debt paydown, an increased dividend and insider share purchases gave credibility to management's long-term strategic goals. Though not part of our base case, Thor's share price is benefiting as the market anticipates a shift in post-pandemic consumer preferences toward outdoor recreation options that put the traveler in the driver's seat.

Diversified media and Internet company IAC/InteractiveCorp continued a robust recovery after seeing its stock price more than cut in half in Q1. IAC is a collection of eclectic businesses, some of which have struggled and some of which have prospered amid the pandemic. In total, IAC's operations are asset-light and built for an online world, which makes the current environment uniquely positive. Angie's List, which is a home services business, was initially hit hard by shelter-in-place orders but has swiftly rebounded and is growing again. Vimeo, a software-as-a-service business for creating professional-quality videos, has accelerated its growth this year. However, the big story for IAC is the spinoff of online dating business Match Group to shareholders. This type of spinoff is core to IAC's corporate DNA. Management builds success inside the company, releases the assets to the market, then goes back to work looking for the next opportunities to create value for shareholders. After the Match Group spinoff, IAC will be a leaner and nimbler collection of smaller, quickly growing businesses and a pile of cash, which we believe IAC will deploy wisely.

Travel restrictions, falling consumer spending and the effects working from home is having on commutes added to cyclical pressures from which autos were suffering well before the pandemic. The car dealer business isn't growing rapidly, but it remains a good business on a normalized basis, generating a lot of cash and creating worthwhile returns on capital. We think an underappreciated aspect of auto retailing is its variable cost model which allows the business to stay highly profitable through the cycle. Top-five contributor AutoNation, exemplar of this variable cost model, has proved resilient. The predictable, high-margin parts and service business can be valuable as well, due to rising complexity in car manufacturing. 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.

Top detractors were Tyson Foods, Spirit AeroSystems Holdings, Arch Capital Group, Loews Corp and Omnicom Group.

The largest food processor in North America, Tyson Foods is a marketer and distributor of chicken, beef, pork and prepared foods. It was also a new purchase in Q2. And late in Q2 for that matter; the initial purchase came in mid-June, so we consider much of the price action in this name to be noise. That said, it is not uncommon for new purchases to show up among the detractors. Our process is built to identify cash-producing businesses in strong financial condition and to invest in them when we believe they are unloved by the market. Amid production and consumption disruptions due to the pandemic's effects on meat-processing plants and widespread restaurant shutdowns, Tyson is unloved. As the economy recovers and reopens over time, so should Tyson.

Spirit AeroSystems is one of the portfolio's smaller positions. As a tier-one, independent supplier of aerostructures—e.g., fuselage, propulsion and wing systems—to the two largest airplane manufacturers on the planet, it's obviously exposed to a struggling industry. The company's fortunes are tied to new aircraft production—something that is not a focus for the airlines for the foreseeable future.

Global insurer Arch Capital is a company we are very familiar with, having held it 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 a mortgage insurer 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.

More generally, financials, our biggest sector exposure, was a weak spot in Q2, given interest rate influences and expectations of a bumpy recovery ahead. On a relative basis, our banks didn't pop as much as the index, and insurance exposures lagged. We are still confident in our view that the sector is very cheap and the challenges it faces are considerably less daunting than those during the financial crisis.

Portfolio Activity

We took advantage of the elevated volatility as an opportunity to sell some names and reallocate capital. REIT Equity Commonwealth held up much better during the downdraft than the rest of the portfolio given a cash-rich balance sheet. We used that to our advantage and closed the position in Q2. Conglomerate Loews Corp continued to be an underperformer, perennially trading at a discount to the sum of its parts, by our estimates. We closed that position for other opportunities. Chemicals manufacturer Nutrien has been a sell candidate for several quarters and we exited in Q2, given its commodities exposure to potash and the hyper-cyclical industry conditions. We concluded that Ryder System is in a tough spot given what's happened to the economy. The fleet of idle trucks, combined with increasing leverage given the leasing business model, suggests a weak and deteriorating financial condition. Rather than continuing to bear these risks as the upside compressed, we sold. Continuing our path of reducing energy exposure, we eliminated our position in refiner Marathon Petroleum, feeling that the road to recovery there is a long and painful one. Finally, we sold our position in E*TRADE on the appreciation after the Morgan Stanley takeover was announced.

With these proceeds and the continuing market volatility, we upgraded the portfolio by buying a diverse group of names during the quarter: a consumer staple in Tyson Foods (protein and prepared foods), an industrial in Otis Worldwide (elevators), a video game publisher in Electronic Arts (more consumer discretionary than communication services) and a REIT in Public Storage.

Tyson Foods is a classic example of our process. In this case, the pandemic forced a dramatic shift in food consumption—from eating out to purchasing at grocery stores—putting pressure on Tyson's margins. On top of this rapid shift, the chicken segment saw pressure as demand weakened and egg set production remained elevated, pressuring chicken margins. There were also investigations into price-fixing among major chicken processors—investigations which weighed on the stock price. These setbacks look temporary, and what we see as we look out a few years is investors' underappreciating the more stable and diverse earnings profile of Tyson Foods today versus in years past. We're monitoring its outstanding debt, but management has a clear, credible plan to use free cash flow to lower leverage. We also see rising barriers to entry in food processing as consolidation has made scale a key variable to earning excess profits. Along with consolidation, rising regulations regarding food quality assurance are further elevating barriers to entry in the food processing industry. Furthermore, Tyson has built a particularly valuable branded foods business, with well-known names like Hillshire, Jimmy Dean and Ball Park inside the tent.

Another purchase emblematic of our process is video game publisher Electronic Arts (EA). First, we've been digging into this name for the better part of two years, during which time the valuation was flying high. We often spend our time most productively well in advance of taking a stake in a name, building our knowledge while waiting for the valuation to offer a margin of safety. Second, this is an ex-index name, reflecting our benchmark agnosticism. Third, while the entry valuation may be atypical (i.e., higher than usual for us), it's appropriate in this specific case. The longevity of the business model and duration of the cash flows, in our estimation, justified the valuation. EA's net cash balance sheet and industry leadership fit well with our philosophy and process. The firm is expanding its moat as it transitions toward streaming, away from physical disks and cartridges, keeping up with consumer preferences. This purchase represents how we can think opportunistically to build an eclectic, idiosyncratic portfolio.

Perspective

Our portfolio has an offensive lean at the moment. Roughly 40% of our holdings are ones we expect to perform better in a positive economic environment. Similarly, we estimate approximately 23% of our portfolio is defensive, focused in areas that are less sensitive to economic cycles and more like bond proxies. In the remaining 37%, we have exposure to areas like financials, media and advertising. That breakdown aside, taking a look at the portfolio as a whole, our Q2 outperformance was driven by approximately one third of our holdings. We believe the other two thirds has yet to see its full potential.

We devote all our time to researching companies from every available angle, 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.

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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. 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. S&P 500® Index measures the performance of 500 US companies focused on the large-cap sector of the market. The VIX Index is a financial benchmark that estimates the expected volatility of the S&P 500® Index, and is calculated by using the midpoint of real-time S&P 500® Index (SPX) option bid/ask quotes. It is commonly used to proxy market risk and/or uncertainty. Dow Jones Industrial Average® Index is a price-weighted measure of 30 US blue-chip 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 30 Jun 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 comprise the following percentages of the Mid Cap Value Fund's total net assets as of 30 Jun 2020: Thor Industries Inc 4.8%, IAC/interactiveCorp 4.2%, Analog Devices Inc 4.1%, Gentex Corp 3.1%, Expedia Group Inc 2.8%, AutoNation Inc 2.8%, BorgWarner Inc 2.6%, Arch Capital Group Ltd 2.6%, Omnicom Group Inc 2%, Tyson Foods Inc 1.9%, Marriott International Inc 1.9%, Vail Resorts Inc 1.9%, Electronic Arts Inc 1.7%, H&R Block Inc 1.5%, Otis Worldwide Corp 1.1%, Public Storage 0.9%, Spirit AeroSystems Holdings Inc 0.9%. 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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