Artisan Value Fund

QUARTERLY
Commentary

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

As of 31 December 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 December 2020	QTD	YTD	Average Annual Total Returns 1 Yr	3 Yr	5 Yr	10 Yr	Inception
Investor Class: ARTLX	**20.00**	**10.64**	**10.64**	**7.04**	**12.91**	**10.19**	**7.41**
Advisor Class: APDLX	**20.05**	**10.91**	**10.91**	**7.23**	**13.08**	**10.29**	**7.47**
Institutional Class: APHLX	**20.07**	**11.03**	**11.03**	**7.30**	**13.16**	**10.45**	**7.58**
Russell 1000® Value Index	16.25	2.80	2.80	6.07	9.74	10.50	7.00
Russell 1000® Index	13.69	20.96	20.96	14.82	15.60	14.01	9.89

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	APHLX
Annual Report 30 Sep 2020	1.08/—	0.92/0.88[1,2]	0.82/—
Prospectus 30 Sep 2019[2]	1.07/—	0.94/0.89[1]	0.85/—

[1]Net expenses reflect a contractual expense limitation agreement in effect through 31 Jan 2022. [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

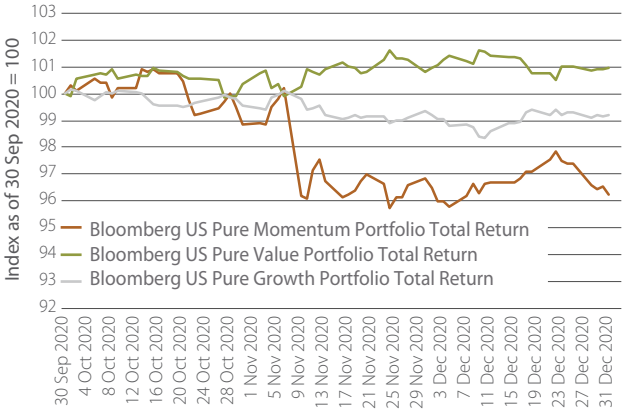
2020 was a year unlike any we have navigated in our careers. In Q1, the S&P 500® Index dropped more than 30% in just 22 days—the fastest and deepest descent since the Great Depression, brought on by a once-in-a-generation pandemic, which precipitated unprecedented monetary and fiscal stimulus, driving one of the swiftest recoveries on record.

Beyond the disorderly market gyrations, business trends were accelerated from years to months as society was forced to reorganize due to the pandemic. As investors, we know conditions will fluctuate, which is why our process is designed to create alpha through market cycles—as was the case in 2020.

It may be a common refrain, but it bears repeating: The pandemic accelerated secular trends already in place, like the shift from brick-and-mortar retail to e-commerce. Some nascent trends may have gotten a boost, like prepared food delivery or video conferencing. Still, not every pandemic winner implied a foundational shift in consumer or enterprise behavior. Some things were simply put on hold out of necessity. Hotels and airplanes will eventually book up. Sorry to say, someone is going to take that middle seat. Stadiums and concert halls and convention centers will fill again. And yes, your kids will go back to school.

Another notable trend shifted in Q4, right on the heels of Pfizer's November 9 vaccine announcement: Momentum gave way to value (Exhibit 1). Over the last few years, these instances have tended to be few and far between. The last time value appeared to be leading was in Q4 2018, and that was short-lived. That was also during a selloff. In this latest move, value is the star of the rally, and it could signal a sustained change in market leadership.

Exhibit 1: Value Performs as Momentum Stalls



Source: Bloomberg. Bloomberg US Pure Momentum Portfolio represents the return of momentum factor from Bloomberg's US Equity model. This factor separates stocks based on their one-year price performance. Bloomberg US Pure Value Portfolio represents the return of value factor from Bloomberg's US Equity model. Value factor aims to differentiate "rich" and "cheap" stocks. Bloomberg US Pure Growth Portfolio represents the return of growth factor from Bloomberg's US Equity model. Growth aims to capture companies' historical and forward-looking growth.

The past decade has been challenging for value investors, to put it mildly. Years of low (and falling) interest rates, massive fiscal deficits and activist monetary policy have created an environment that is tough for stock pickers looking for great deals. Abundant liquidity and rapid adoption of financial technology have made markets easier and cheaper to access for an increasing share of the population, themselves with varying levels of sophistication. On balance, this is a good thing. There ought to be low-cost opportunities for everyone to invest in the next great innovation or to own a piece of an iconic brand. But with these democratizing technological changes have come more trend following, momentum trading and herd behavior. Against the backdrop of microscopic discount rates, the compulsion to pay up for growth or yield has been exceptionally strong.

It's one thing if the prevailing discount rates are naturally occurring. It's quite another when prevailing discount rates are manufactured by policymakers. When central banks are signaling they intend to keep rates low, you get a double effect. Not only are future cash flows more valuable as a function of the arithmetic, the risk to those cash flows appears to be lower by virtue of a policy commitment. A manipulated interest rate environment can therefore reduce investors' required rate of return by lowering embedded risk premia; it's a distinction between the perceived and the actual required rate of return. When the central banks are artificially depressing interest rates and taking away price discovery, the result is higher multiples on stocks. Where's the safety to a value investor in that?

It's against these extreme valuation forces we disciplined value investors might wonder if we are like Sisyphus, the ancient Greek mythical figure doomed to an eternity of futilely carrying a boulder up a mountain, only for it to roll down every time he neared the peak.[1] Unfortunately, being patient, caring about what we pay for a business or being principled in the attempt to temper and reduce risk in the portfolio has not been rewarded.

Instead, investors have been compensated for their willingness to pay ever-higher multiples for companies that can produce top line growth. This has been apparent in watching momentum factors dominate index returns. Valuations have been driven to extremes merely because companies have demonstrated growth to investors. There's apparently nothing more valuable—no price too high—for a semblance of top line growth. What about risks to that growth? Or its sustainability? Or profitability? Also, thanks to exorbitant amounts of stock repurchased using cash flow and/or leverage, growth rates in earnings per share have been strategically boosted, but many investors haven't seemed to care.

More cautious investors do seem to care about risks to growth, so they have taken a different approach. While they, too, have clamored for growth in a slow growth world, they've also sought safety of principal and certainty of return. That means they've been willing to own securities that have bond-like qualities, continually bidding up

those types of equities that have annuity-like returns. Think of areas of the market like REITs, utilities and consumer staples—aka, bond proxies. When you combine a low interest rate world with investors seeking low volatility and dividends (certainty and stability), you can also get slower-growing areas of the market that become aggressively priced.

Value investors have also been fighting the uphill battle against index construction. In particular, using the broad Russell 1000® Growth Index and the Russell 1000® Value Index as examples, their industry weights can vary substantially. When examining the information technology sector, the difference is quite shocking. As of December 31, 2020, relative to the Russell 1000® Growth Index, the value index carries over 3500 basis points less technology exposure. In a manner of speaking, value investors are massively short technology relative to their growth peers, which helps explain a lot of the recent performance gaps between the styles.

Investing in capital-light, cash-generating technology businesses—given their ability to successfully navigate a pandemic and avoid business disruption—has self-evident appeal. We, too, like similarly positioned businesses. However, we are sensitive to the price being asked to acquire a piece of the enterprise. The flaw in letting the index determine industry weightings is it pre-supposes the weight is the correct one. Unfortunately, the index makes no judgment about the quality of the companies within it. It does not discern unintended risks that might arise from such a large industry weight. It ignores the momentum effects from the market cap-weighted construction. And most importantly, the index does not consider valuation other than to bucket broadly into style groups. Value investors invest in technology, too, but they are sensitive to all the things (and more) that an index doesn't ponder.

From extreme valuations and any-growth-at-any-price (AGAAP—might be a new moniker) to benchmark construction and herding into perceived safety, value investing may seem like a Sisyphean task. But that would be the wrong way to understand our condition. If there's a lesson to draw, it's not how we might be doomed to failure like Sisyphus, but how we're distinctly different. We weren't banished to this style; like you, we've chosen it of our own accord. Finding great businesses at undemanding valuations is the best way to deliver value over time. We take up this task and lift the boulder for our clients and ourselves because we know investing with a margin of safety is what's required to generate excess returns in an uncertain world. We look forward to the challenge and know markets will rotate back toward value sooner rather than later. In fact, it may be underway already. To borrow from Camus, "The struggle itself toward the heights is enough to fill a man's heart. One must imagine Sisyphus happy."

Performance Discussion

The Russell 1000® Value Index returned 16.25% in Q4, with top contributions from financials, industrials and communication services. The portfolio outperformed the benchmark, driven by superior stock selection in consumer discretionary, information technology and industrials. Names in the energy and communication services sectors have detracted from relative results.

At the individual holdings level, top contributors in Q4 included Samsung Electronics and Alphabet. Korea-based Samsung Electronics is the category leader in memory semiconductors. The semiconductor business is the largest portion in a sum-of-the-parts model by far. The market became more optimistic on an upturn in the memory semiconductor cycle which drove share price outperformance. Samsung is the low-cost provider due to dominant market share, scale and leading technology. We believe the company is well-positioned in both semiconductors and smartphones—evidenced by the fact that it has generated good margins and a lot of free cash flow in both businesses.

Large-cap tech companies have been resilient through the pandemic—Alphabet among them. Alphabet's Play Store and Google Cloud are in demand as businesses accelerate online activity which, along with strong YouTube user growth, is helping stabilize temporarily weaker search ad revenue trends. While this holding may strike readers as more befitting a growth or momentum strategy than a value strategy, our benchmark-agnostic, opportunistic value investing style differentiates us. Using the lens of our disciplined bottom-up research process we view Alphabet as one of the best businesses in the world, capable of expanding revenues at a rapid rate for years to come, with a bullet proof balance sheet and an average asking price. It's a name we've owned since 2014 and for which we continue to have high hopes regarding future prospects.

Top detractors in Q4 included Sanofi and Swedish Match. These two defensive securities were out of favor as vaccine distribution started in earnest and the market shifted focus to a post-COVID world. Sanofi performed about in line with other global pharmaceuticals companies. We believe Sanofi's management team will have success improving the pipeline and managing costs through restructuring. For perspective, Swedish Match was down ~4% in the quarter but provided a 54% total return for 2020.

Portfolio Activity

New purchases include Northrop Grumman, CME Group, Cigna and Schlumberger.

Northrop Grumman is a leader in manned aircraft, unmanned aircraft, spacecraft and missile-defense systems. We initiated a position in November 2020, as we believe the name is trading at an undeserved discount, despite having the potential to accelerate revenue over the next 24 months. In 2020, Northrup signed a contract to work with the US Air Force on their Ground Based Strategic Deterrent (GBSD) and B-21 bomber. We believe the company's portfolio is well-positioned with a highly desirable space segment business, significant classified content and GBSD driving growth. While the market has been focused on a "blue wave" risk to the defense budget, the industry is typically driven by threat assessment rather than budget constraints. If budget cuts were ever to affect the US Army, that customer represents less

than 10% of the company's revenue. This reinforces our belief that Northrop is well-positioned for the future and trades at an attractive valuation.

CME Group is a global securities and commodities exchange company, specializing in futures and derivatives. As one of the four big US exchanges, CME is well-positioned to outperform peers who are more concentrated in single stock equities or cash securities transactions. Unlike a single stock which can trade on any venue, futures are unique to the exchange on which they are offered due to margin requirements and proprietary rights, contributing to a wide moat. Interest rate futures and derivatives exhibit cyclical swings within a secular growth path. We purchased CME at what we believe is the trough of its earnings cycle and hope to benefit as the Federal Reserve slowly steps back from markets over time, which should increase interest rate volatility. Ultimately, this is a cash-generative, high margin business with stellar business economics that returns all excess cash flow to shareholders in the form of regular and special annual dividends. With an undemanding valuation on trough earnings, CME is a great example of our process at work.

Cigna is a leading managed care company which operates through the following major segments: health services, integrated medical, international markets and group disability. It's one of the few managed care organizations in the United States with the scale and size to compete effectively. Cigna has recently focused on deleveraging its balance sheet and further diversifying its business, after completing the Express Scripts acquisition in late 2018. Additionally, the company has partnered with Amazon, which will offer two new pharmacy options—including a self-pay offering. Cigna will administer the self-pay option through its health services division Evernorth. The partnership should be one of many strong earnings drivers for Cigna, which we believe is currently trading at an attractive valuation.

Top three contributor Morgan Stanley, a leading global financial services company, came into the portfolio in Q4 as a result of its purchase of E*TRADE. E*TRADE is a great fit on Morgan Stanley's wealth management platform and provides a considerable amount of non-interest-bearing deposit funding. James Gorman, chairman and CEO, has steadily de-risked Morgan Stanley's business by adding less volatile fee streams and deemphasizing the risk-obtuse culture of prior management. We believe the market will come to appreciate this mix shift over time.

Schlumberger, which is a global provider of a range of services to the oil and gas industry, was a new purchase in Q4 as well as a top detractor. We've noted in the past how it is not uncommon for low expectation situations to experience widening discounts as we enter and build our position. It's often a feature of our process, though it may appear as a bug in standard performance attribution analysis. As the world's largest oil services company, Schlumberger is working to adapt to 2020's oil-price shock, in part, by reducing fixed costs and creating a differentiated and digitally focused way to more effectively manage the oil drilling process. Despite a terrible operating environment, Schlumberger still generates positive free cash flow, even in the worst of times. We maintain our belief that Schlumberger has the necessary tools to help transform its cost base and by extension allow it to offset industry deflation resulting from secular headwinds.

We fully exited positions in Apple, Citigroup and DuPont de Nemours.

Apple is a global designer, manufacturer and seller of smartphones, personal computers, tablets, wearables and accessories, which also has a rapidly growing and highly profitable services business. We had been shareholders since 2011, owning Apple in various sizes throughout our investment campaign. Apple remained in the portfolio all these years because the market systematically assigned the company an undemanding asking price despite characteristics which should command a premium. Our differentiated view was Apple had "won" in the smartphone business along with their other product categories as its iOS operating system tied users into an ecosystem and rising services adoption led to increased switching costs for users. Survey data showed users were as happy with Apple products as ever, too. With all these traits in place, the result was a rising installed base and each user becoming more valuable due to services attach rates. When combined with an average asking price, tremendous free cash flow generation, and management pointing all cash flow back to shareholders, the odds of a strong return were heavily tilted in our favor. Apple is likely to remain an extraordinary business for years to come, but we can't separate the business from the asking price. At over 30X earnings and $2 trillion in value, Apple needs to create opportunities worth hundreds of billions for shareholders to now justify the asking price. So, we exited a long-time holding, but we know being disciplined and recycling capital into better opportunities is the appropriate decision.

Global financial services company Citigroup made a $900 million clerical error and received a public reprimand from federal regulators. This, after a decade focused on process control, information technology and risk systems, makes the error substantially more costly than just the $900 million mistake. Regulators believe the company's risk management improvements have fallen short of expectations. To rectify the situation, a process and technology spending surge could negatively affect 2021-2022 profits by 10% to 20%. Trust and confidence are important in large financial institutions, and this incident combined with the CEO's sudden retirement shook ours.

DuPont de Nemours operates as a holding company engaged in the development of specialty materials, chemicals and agricultural products. It operates through the following segments: electronics and imaging; nutrition and biosciences; transportation and industrial; safety and construction and non-core. We believe DuPont de Nemours has strong fundamentals, but the margin of safety deteriorated due to the lingering effects of trade wars and separation charges related to the sale of its nutrition and bioscience division to

International Flavors & Fragrances. We sold in favor of better opportunities.

Perspective

It's been a tough decade for value investors. While that's true, it's also slightly misleading because most of the discrepancy comes from the most recent five years, not the first five. This is an important detail because it helps contextualize how the last several years of low interest rates, debt-fueled GDP growth and frothy tech valuations (from SPACs and IPOs to legacy players) have an outsized effect on relative performance.

We don't believe growth will continue to lap value as the gap has gotten too wide. But our risk-aware investing style means we won't put a timeline on it. Instead, we continue to invest in cash-producing businesses in strong financial condition selling at undemanding valuations. By sticking to this discipline, we believe our portfolio can weather unanticipated system shocks. Meanwhile, our focus on balance sheet and cash flow allows us to act opportunistically when discounts appear. We view 2020 as a proof point of our philosophy and process.

Our process is geared toward investing in low expectation situations. These situations are often found in areas of the market where high levels of fear and anxiety exist. Our belief is that if a high level of pessimism is already baked into a stock, the risk/reward will be tilted in our favor. Clearly, value investing is in a lower expectations regime than the broad market. We believe our entry levels and overall positioning provide an advantageous margin of safety in a world where uncertainty is high and the range of potential outcomes remains as wide as ever.

Business Update

We want to share some exciting changes happening to our team. After 23 years at Artisan and more than three decades in the investment business, Jim Kieffer is stepping back from day-to-day portfolio management responsibilities in order to devote greater time and focus to the research process and to value investing in general. This change will be effective February 1. As we are sure you know, this industry is professionally and personally demanding. It requires a lot of dedication and commitment to fulfill your passion as an investor and obtain a successful outcome for clients. At this stage of his career, Jim wants more balance in life given how challenging the job is and how long he's been at it; we certainly cannot fault him for that. By removing some of his daily responsibilities, we think this is a promising step, and an overwhelming vote of confidence in the team.

Jim will be stepping back, but he won't be stepping away. He will maintain a significant ongoing presence with the team but will dedicate his focus to research, oversight, mentorship and sustaining team culture. We think this structure is beneficial to both our clients and our team. This arrangement allows Jim to stay on for an indefinite period of time, removes the daily portfolio management responsibilities from Jim's plate, allows us to benefit from his ongoing input into the research process and provides a pathway for a seamless transition to an eventually reduced role at Artisan, whenever that time arises. Jim will remain an active sounding board, a senior mentor and managing director on the team and will elevate the all-important devil's advocate role that we value so greatly. While we don't know exactly what the shape of this trajectory will look like, we are confident this thoughtful arrangement will prove beneficial to everyone, without any interruption or distraction for the team.

[1]*"I leave Sisyphus at the foot of the mountain! One always finds one's burden again. But Sisyphus teaches the higher fidelity that negates the gods and raises rocks. He too concludes that all is well. This universe henceforth without a master seems to him neither sterile nor futile. Each atom of that stone, each mineral flake of that night filled mountain, in itself forms a world.* The struggle itself toward the heights is enough to fill a man's heart. *One must imagine Sisyphus happy."*

-Albert Camus, *The Myth of Sisyphus*, 1942

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. Russell 1000® Growth Index measures the performance of US large-cap companies with higher price/book ratios and forecasted growth values. S&P 500® Index measures the performance of 500 US companies focused on the large-cap sector of the market. The index(es) are unmanaged; include net reinvested dividends; do not reflect fees or expenses; and are not available for direct investment.

This summary represents the views of the portfolio managers as of 31 Dec 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 Dec 2020: Alphabet Inc 5.6%, Samsung Electronics Co Ltd 4.0%, Morgan Stanley 3.8%, Northrop Grumman Corp 2.5%, Sanofi 2.2%, CME Group Inc 2.0%, Schlumberger NV 2.0%, Swedish Match AB 1.8%, Cigna Corp 1.3%. 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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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. **Earnings per Share (EPS)** is the portion of a company's profit allocated to each outstanding share of common stock. **Free Cash Flow** is a measure of financial performance calculated as operating cash flow minus capital expenditures.

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