Artisan Mid Cap Value Fund

QUARTERLY
Commentary

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

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: ARTQX	**22.30**	**5.44**	**5.44**	**4.03**	**9.15**	**8.60**	**9.73**
Advisor Class: APDQX	**22.28**	**5.57**	**5.57**	**4.18**	**9.29**	**8.68**	**9.77**
Institutional Class: APHQX	**22.33**	**5.62**	**5.62**	**4.24**	**9.38**	**8.81**	**9.84**
Russell Midcap® Value Index	20.43	4.96	4.96	5.37	9.73	10.49	9.67
Russell Midcap® Index	19.91	17.10	17.10	11.61	13.40	12.41	10.23

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
Annual Report 30 Sep 2020	1.21	1.06	1.00
Prospectus 30 Sep 2019[1]	1.21	1.07	0.99

[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

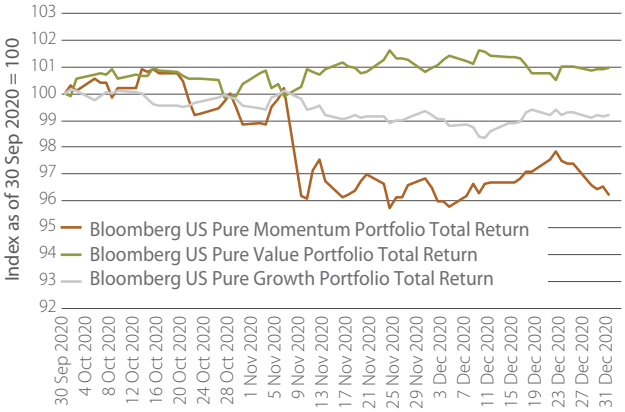
2020 was a year unlike any we have navigated in our careers. In Q1, the S&P 500® Index dropped more than 30% in just 22 days—the fastest and deepest descent since the Great Depression, brought on by a once-in-a-generation pandemic, which precipitated unprecedented monetary and fiscal stimulus, driving 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 has 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 Midcap® Growth Index and the Russell Midcap® 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 Midcap® Growth Index, the value index carries over 2800 basis points less technology exposure. In a manner of speaking, value investors are massively underexposed to 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

Our portfolio beat the Russell Midcap® Value Index in Q4 and for the whole of 2020. Holdings in the industrials and communication services sectors were drivers of outperformance at the sector level. Utilities was the worst performing sector in the index in Q4 and, owing to what we consider extended valuations there, we don't have any exposure, boosting relative returns. We also don't own any energy sector names. This worked against the portfolio as energy was the top performing sector in the index for the quarter. Financials and health care holdings detracted from relative returns as well.

At the individual holdings level, top contributors in Q4 were Expedia, IAC/InterActiveCorp, Air Lease, Gentex and AutoNation.

Online travel agent Expedia has weathered the pandemic using a flexible cost structure which has allowed the company to scale back performance advertising as demand has declined. Despite the currently depressed state of global travel, the business's moat remains wide as Expedia is one of two globally scaled online travel agencies. This scale advantage remains key to our investment case as travel returns to normal in the years to come.

IAC/InteractiveCorp 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 relatively attractive. When IAC spun out the Match Group online dating business in Q2, we noted how deals like that are 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. Given the success online video has had amid the pandemic, IAC's next deal came sooner rather than later. In Q4, management announced the online-video platform Vimeo would be spun off in 2021. Vimeo's hosting and video creation tools are in high demand with user growth during the pandemic accelerating and enterprise customers emerging for the first time. Vimeo being its own asset gives it a cheaper cost of capital relative to remaining inside IAC. This cost of capital advantage shows up in R&D spend, employee compensation and M&A activity. Stock is a currency, and IAC knows how to use it.

Airplane leasing company Air Lease released Q3 earnings the same day (November 9) Pfizer announced it had a successful novel coronavirus vaccine. The combined news was positive. Air Lease management highlighted the airline industry's obvious struggles but also expressed confidence in their business by raising the dividend. By Thanksgiving, they struck a deal with Alaska Airlines for 13 new 737s. The bull case on Air Lease is multifaceted. First, the OEMs view lessors as stronger than the airlines due to their ability to raise capital and take deliveries during this crisis. Consequently, the lessor's role in the ecosystem may grow at a faster pace than the already considerable growth over the past 40 years. Second, the airlines are still hurting financially, so firms like Air Lease that have raised low-cost funds can be opportunistic deploying capital into new aircraft. Third, these companies always traded cheap due to fears of book value hits in a recession or 9/11-type event. Should book values survive this crisis, we will be paying close attention for multiple expansion. All that said, there is a lot of uncertainty about how airlines will recover as the general public becomes increasingly comfortable with flying again.

Gentex, a manufacturer of automatic-dimming mirrors and related driver-assistance systems for the global auto industry, was a top Q4 contributor. Margins have improved as management focuses on cost mitigation and product mix (particularly in emerging markets). Car sales have recently ticked up, attributable to pent-up demand after a summer of pandemic-driven lockdowns as well as some aversion to public transport. While auto suppliers face cyclical headwinds in general, Gentex maintains a robust cash position and dedicated capital return program. Gentex is a technology leader in the auto space and dominates its market. It is the type of business growth investors crave but that they have been slow to adopt.

Car dealer AutoNation has seen profit recover swiftly after the business faced dramatic headwinds in the first half of 2020. Research indicates consumers will service their vehicles regardless of economic conditions, which has proven true in this cycle again, as AutoNation's high-margin parts and service business remains a steady profit contributor. US new and used car sales volumes have been rebounding rapidly, which has also contributed to AutoNation's bottom line. At the same time, the business is regaining its footing on the top line. The market is revaluing the business higher now that management is being more disciplined on margins, and we are glad to see a long-tenured holding show improved business results despite generally weak economic conditions. We continue to believe the business has an undemanding valuation, a healthy financial profile and strong cash-generation capabilities, which is why AutoNation remains one of our top weightings.

Among the top detractors were Kroger, Thor Industries and BorgWarner.

Kroger, one of the largest US food retailers, was the top detractor from relative performance. The business has benefited from some of the pandemic-related consumer behaviors as we all relied more on local groceries and less on restaurants. EPS surged as a result. Consequently, comparable metrics could prove tough in 2021, a source of kryptonite for momentum-oriented investors, but just part of the back and forth for a value investor. Throughout 2020, Kroger was able to generate significant free cash and deliberately chose to not raise prices in ways that might damage longer-term customer loyalty. Management has been able to continue investing in digital, in new products, in higher wages and in more sustainable pensions. However, the market is concerned about how much of this positive momentum carries into a more normalized, post-pandemic demand environment. Kroger is working to shore up revenue by increasing its digital advertising footprint as more customers shift to online grocery shopping. We believe Kroger remains in a strong competitive position with an undemanding valuation.

Recreational vehicle manufacturer Thor has been a strong performer for the portfolio after a significant rebound from its March 2020 lows. After such a big runup, amid which we trimmed our position, we are not surprised the stock has taken a breather and is among our top Q4 detractors. The market was quick to put a premium on RV travel as airlines were grounded and people were relegated to their homes and relied more on driving. As we got nearer to winter and closer to a vaccine, some of this premium diminished. Critically, management has noted results will likely be strong for a couple years as the jump in demand emptied out industry inventory. Our core views are unchanged: Thor operates a resilient business model built to handle cyclicality. This is an industry-leading business with strong return on capital, consistent free cash flow and sensible capital allocation.

BorgWarner (BWA) is a leading tier 1 auto supplier with mid-single digit organic growth and a valuable product portfolio which produces strong returns on capital. The stock price was mostly flat in Q4, leading to relative underperformance. We purchased BWA in the first quarter after owning its competitor and acquisition target Delphi Technologies. The deal closed in October. BWA has carved a niche in the auto supply chain that is more profitable than peers' due to its focus on unique technologies which help OEMs meet emission and MPG standards. Scale is important as a tier 1 manufacturer and with the Delphi merger, BWA will be the largest auto drivetrain company in the world, which should allow it to continue innovating and gaining market share in the years to come. Management wisely knows they operate in a cyclical business and have kept the balance sheet clean to manage through the cycles, unlike many peers. BorgWarner generates strong returns on capital, has market-leading margins (which turn into free cash flow for shareholders) and still trades at an undemanding valuation.

Portfolio Activity

New purchases include Jones Lang LaSalle and PS Business Parks.

Jones Lang LaSalle (JLL) is a leading commercial real estate broker and property services firm. This is a familiar name and we opportunistically took a position in Q4 when we felt the market was overly critical of the office real estate market. While we recognize JLL does have risk elements pertaining to transactional activity in its business model, it is also highly diversified across property sectors as well as business segments. JLL has its hands on just about every kind of commercial real estate activity there is, whether buying, selling or leasing. In a sense, it's capturing a toll on global economic activity. It is important to emphasize that JLL is focused on using technology to consolidate a fragmented industry and integrate its offerings globally. In our view, JLL has a flexible, capital-light, cash-generating model that will allow it to meet the cyclical demands of the industry in the coming years.

We initiated a position in California-based PS Business Parks, a fully integrated, self-advised and self-managed REIT, which primarily operates a portfolio of multi-tenant flex, office and industrial space. The company has a healthy balance sheet, capital flexibility, disciplined management team and attractive valuation. Management operates with an owner-operator mentality, a key element we look for in all investments, but especially REITs. We believe PS Business Parks' strong financial condition and capital allocation skills position the

company well to create value for shareholders through an economic cycle.

We fully exited positions in Axalta Coating Systems and Match Group.

Axalta Coating Systems is a global manufacturer, marketer and distributor of high-performance coating systems. Demand in body shops is quite variable in most normal times and certainly more variable during a pandemic. The company is in full cost-cutting mode, playing strong defense. Axalta's fortunes are tied significantly to the new/used car markets; refinish activity has been affected by reduced miles driven and accident rates; and raw material prices dropped dramatically in 2020, limiting pricing power. After the company explored several options for an outright sale and came up empty, we sold in favor of better opportunities.

As we discussed in our performance section, IAC/InterActive spun out Match Group, a provider of online dating products worldwide, back in Q2. Post-spin performance was quite strong. While we appreciate the business's potential, especially as it expands into international markets, the valuation was stretched to a point that only the most ideal possible outcomes could justify it. With our margin of safety eroded, we exited the position.

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. 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. Russell Midcap® Growth Index measures the performance of US mid-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 comprise the following percentages of the Mid Cap Value Fund's total net assets as of 31 Dec 2020: Expedia Group Inc 3.5%, Gentex Corp 3.2%, IAC/InterActiveCorp 3.1%, Air Lease Corp 3.0%, Thor Industries Inc 2.9%, AutoNation Inc 2.6%, BorgWarner Inc 2.2%, The Kroger Co 1.6%, Jones Lang LaSalle Inc 1.3%, PS Business Parks Inc 0.7%. 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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