Artisan Value Fund

QUARTERLY
Commentary

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

As of 31 December 2021

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

Thomas A. Reynolds IV
Portfolio Manager

Daniel L. Kane, CFA
Portfolio Manager

Craig Inman, CFA
Portfolio Manager

Investment Results (%)

As of 31 December 2021	QTD	YTD	Average Annual Total Returns 1 Yr	3 Yr	5 Yr	10 Yr	Inception
Investor Class: ARTLX	**4.48**	**23.08**	**23.08**	**21.06**	**11.85**	**11.91**	**8.34**
Advisor Class: APDLX	**4.55**	**23.25**	**23.25**	**21.24**	**12.03**	**12.02**	**8.41**
Institutional Class: APHLX	**4.54**	**23.29**	**23.29**	**21.32**	**12.10**	**12.17**	**8.51**
Russell 1000® Value Index	7.77	25.16	25.16	17.64	11.16	12.97	8.07
Russell 1000® Index	9.78	26.45	26.45	26.21	18.43	16.54	10.87

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 2021	1.05/—	0.95/0.88[1]	0.83/—
Prospectus 30 Sep 2020[2]	1.09/—	0.93/0.89[1]	0.83/—

[1]Net expenses reflect a contractual expense limitation agreement in effect through 31 Jan 2023. [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.

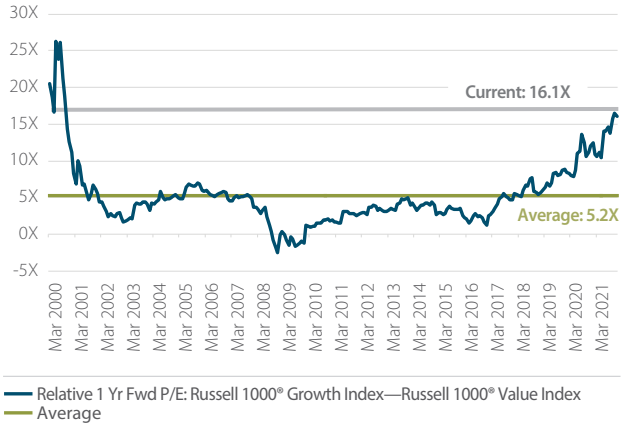
Investing Environment

COVID continued to drive volatility in equity markets in the final months of 2021, but any weakness proved to be short lived as US stocks rallied, capping off a strong year for investors. The Russell 1000® Value Index returned 6.31% in December, driving Q4's gain of 7.77%. Stocks rebounded in December after late November's selloff on the emergence of COVID variant omicron. While omicron has proven highly transmissible, it hasn't been as virulent as previous strains. All sectors advanced, aside from communication services, which was down about 5%. With double-digits percentage gains, the top-performing sectors included real estate, utilities and materials.

The pandemic continues to roil supply chains, creating a mismatch between supply and demand for goods. The bulk of those goods—both final and intermediate—are shipped from overseas, such as China where COVID continues to impact production and ports, with worker shortages commonplace throughout the global supply chain. From the demand side, consumer balance sheets have rarely been stronger. Fiscal transfers, huge wage gains in many industries and the substantial appreciation of assets—financial and real estate—that consumers can tap into have bolstered consumer demand. Since people are consuming less services, things like dining out, attending sporting events and traveling, they have more money to spend on goods. Each of these factors has contributed to today's high and persistent inflation. In the US, consumer prices rose 7% year over year in December—the fastest rate in almost 40 years. But this isn't a US-only phenomenon. In the eurozone, inflation hit a new record high of 5%. Under the circumstances, the Fed has begun to taper its monthly asset purchases and signal potential rate hikes in 2022. Even Jay Powell, who has commonly referred to inflation as "transitory," was forced to abandon usage of the term. As we write this letter in January, markets are pricing in four rate hikes in 2022.

Today's inflation backdrop is a huge departure from most investors' personal experience, particularly those who only know times since the global financial crisis. Understandably, markets are adjusting to the new inflation regime. In the low growth and interest rate environment that prevailed in the years after the financial crisis, investors were willing to pay up for growth. Indeed, growth stocks have been in vogue for most of the past decade, though only really in the past few years—2017 to 2020—did they significantly outperform their value counterparts. It was during this period that their prices rose disproportionately relative to their earnings growth, driving their valuations higher both on an absolute basis and relative to those of value stocks. As shown in Exhibit 1, the valuation premium for growth stocks in the large-cap space hasn't been this high since the early 2000s.

Exhibit 1: The Valuation Premium for Growth



Source: Bloomberg/Russell. As of 31 Dec 2021.

We began our investment careers in the late 1990s. Not since those formative years in the industry have we seen a more appealing setup for value to outperform going forward. In contrast to 2009 when growth stocks were historically cheap, they are now richly valued. Layer in rising interest rates that make long-dated assets less appealing and broadening economic growth that should benefit more mundane businesses, and we see a strong case for value.

Performance Discussion

In Q4, the portfolio participated in the up market but trailed its benchmark. Relative performance during the period was held back by our comparative sector and industry exposures, as well as by underperformance among our health care holdings. With respect to exposures, our large communication services sector weighting averaging ~16% versus less than 8% for the Russell 1000® Value Index was a significant performance headwind as the sector was the worst performer by a wide margin. Likewise, in the consumer staples sector, much of the index is comprised of food, beverages and household products, each returning 10%+ in the quarter, whereas our only consumer staples holdings are tobacco stocks, and the tobacco sub-sector returned less than 3%. Lastly, a few of our health care holdings were weak. On the positive side, our financials holdings outperformed, partly due to our lack of banks but also resulting from strong gains by exchange operator CME Group and insurance company Arch Capital. Our technology holdings were an additional source of strength, driven by positive stock selection.

In the health care sector, our biggest detractor was Philips. Philips was a Q3 purchase. After exiting more consumer-focused businesses such as TV and lighting over the past decade, Philips has become a health care technology company operating across three main areas: diagnosis and treatment, connected care and personal health. Shares came under pressure due to a recall of its first-generation CPAP machine for sleep apnea and fears regarding potential litigation. This created our opportunity to get involved. However, following our initial purchase, shares fell further in November after the FDA provided an update on the device recall and delineated deficiencies identified from an inspection of the device's main manufacturing facility, which in itself is not unusual. Investors' key sources of concern likely center around the recall expanding to additional products, the potential for legal recourse and potential market share losses arising in the sleep division. Nonetheless, the sleep division is a small part of the overall business—which we do not believe is going to zero. The company has a large installed base of medical diagnostic equipment (e.g., MRI/PET/CT/ultrasound scanners) that offers a high recurring stream of software-like maintenance revenues. This is a sticky business as medical providers are reluctant to switch over to competitors. We believe shares have been overly penalized, so we added to our position on weakness.

Other big decliners were Comcast and Swedish Match. Comcast is the leading broadband cable company in North America and a global content producer. Comcast and other cable companies are seeing decreased net subscriber additions as they are lapping tough comparisons from a year ago when net additions were high earlier in the pandemic. Interestingly, churn remains at record low levels—a positive metric that speaks to cable's value proposition. For Comcast, an additional headwind is a delayed recovery in its theme parks business due to the ongoing pandemic. Additionally, increased investment in 5G by wireless competitors may be weighing on shares. However, 5G is not currently competitive with cable, and based on the economics of 5G capex, it's unlikely to be competitive for many years, if ever. Cable continues to have a competitive advantage with respect to network speeds and reliability. High recurring revenue, pricing power and low capital intensity make for a powerful economic model that contribute to Comcast's free cash flow generation, allowing the company to play offense with regards to capital allocation. In summary, Comcast is a well-financed business with a wide competitive moat, that trades cheaply at under 13X our estimate of normalized earnings.

Swedish Match manufactures a variety of smokeless tobacco products under names that would be recognizable to most Americans—even those who do not consume their products. That brand recognition translates into a durable competitive advantage, helping it to compound value over time. The shares came under pressure in the fourth quarter due to a proposed new tax on nicotine products in the Build Back Better bill. While the tax did not end up in the bill, the risk of increased taxation over time is one that we already take into account. Even under a large excise tax increase scenario, the fundamental demand drivers of Swedish Match's smokeless tobacco products, which generate a majority of company sales, should remain intact. Swedish Match is a high-margin, strong cash flow producing business that we believe is selling at an undemanding valuation based on a range of estimates. In addition, Swedish Match's "Zyn" nicotine pouch is tobacco free which lowers health risk compared to tobacco products.

Turning to the positive, we had several strong performers. Though we discuss just a few holdings in depth in this investor letter, positive contributions came from a variety of stocks as there were 11 holdings with total returns of 10%+ in Q4. Among these were CME Group, Arch Capital and EOG Resources. CME, a derivatives exchange operator, stands to meaningfully benefit from interest rate volatility as market participants price in changing rates of inflation and the Federal Reserve's response, including tapering and potential rate hikes. With steady growth in the outstanding "raw material" of US Treasury securities and other fixed income instruments as far as the eye can see, the underlying need for managing interest rate exposure continues to grow. CME also benefits from price volatility across the agricultural and industrial commodities complex. Our long-term investment case is predicated on the company's wide moat and high margins in its secularly growing derivatives business. Unlike trading of common stocks, futures and options transactions are unique to single venues, making exchanges small monopolies having strong business economics. CME has a clean balance sheet and a shareholder-friendly policy of returning all excess cash flow to shareholders via regular and special dividends. These dividends are currently smaller than normal as CME Group is under-earning in the current low interest rate environment.

We repurchased global insurer Arch Capital in Q1 2020 when the pandemic began. As a long-time holding, Arch is a company we know well. It's an industry leader capably managed by a long-tenured team that has achieved an enviable underwriting record, while at the same time seeking opportunistic growth. Arch's insurance business is a three-legged stool, with lines covering primary insurance, reinsurance and mortgage insurance. Primary insurance and reinsurance are influenced by conditions in the property casualty industry, where pricing is currently positive following concerns about inadequate pricing over the past few years. The mortgage insurance industry is working its way through complications wrought by the pandemic, but in contrast to other underwriters that pulled back from writing business, Arch has leaned into this business as it saw an opportunity to earn excess returns—once again showing management's acumen for creating value during a disruption.

EOG Resources, a US shale-focused E&P firm, has been a beneficiary of higher energy prices. The business enjoys a low-cost production position and a strong balance sheet which enabled the company to increase production capabilities during the downturn. As energy prices recover and the industry adjusts to the new supply and demand dynamics, investors have begun to appreciate the earnings power of the business. EOG's management focuses on return on

invested capital and cash flow generation, which distinguishes it from most of the company's competitors. We believe EOG's high-quality management team and access to low-cost reserves are sustainable competitive advantages in a commodity industry.

For the full year, similar to Q4, our portfolio participated strongly but trailed its benchmark. And like Q4, sector weightings, particularly an above-benchmark weighting in communication services—the weakest performing sector in the index with a 1% gain—and a lack of real estate holdings—held back relative performance. Additionally, an average cash position of ~3% in a year when stocks were up 20%+ was a material drag. Stock selection was positive overall, driven by our communication services, financials and technology holdings.

Our biggest detractors for the year were Fresenius Medical Care, Samsung Electronics and Philips, discussed previously. Fresenius Medical is a vertically integrated provider of dialysis equipment and services, reaching the large and growing global population of chronic kidney disease patients. The company has experienced headwinds related to the pandemic, most notably due to the higher mortality rates found among dialysis patients. However, the company is a global market share leader in terms of both supplying dialysis equipment and treating dialysis patients, affording it a natural competitive advantage. Due to the relative stability of the business model, Fresenius carries more leverage on its balance sheet than we typically prefer, but it has steadily reduced its debt burden given strong and stable cash flows despite the ongoing industry volatility. Further, management has indicated its intention to reduce capital intensity as it deploys an in-home solution for patients. Earnings and cash flow have steadily climbed for the better part of the last decade. We anticipate the business will recover post-COVID and will benefit from the secular growth of its end markets.

South Korea-based Samsung Electronics is a diversified technology company, manufacturing a wide array of consumer and industrial electronic equipment, such as semiconductors, mobile devices, PCs, TVs and home appliances. The semiconductor business is the largest percentage of revenues. There are renewed concerns that the memory semiconductor cycle has peaked, and the capex surge will depress future DRAM and NAND pricing. We feel over the long term, the DRAM market is structurally sound and data growth is a massive secular tailwind that should smooth out cycles, making Samsung increasingly less cyclical over time. We believe the company remains well positioned in both semiconductors and smartphones—evidenced by the fact that it generates good margins and substantial free cash flow in both businesses. Additionally, Samsung is among the cheapest large-cap technology stocks, selling at just ~11X earnings.

Overall top contributors were Alphabet, Blackstone and aforementioned EOG Resources. Advertising is recovering, and Alphabet is a key beneficiary through its search business and online video business YouTube. We continue to see large profit pools for Alphabet in the early stages of monetization, along with the migration of advertising dollars away from traditional mediums, like TV, to online search and video. These factors give us confidence Alphabet continues to have a long runway to grow revenue and profits. In addition, Alphabet's cost controls are improving, which is driving more revenue growth to the bottom line. Finally, management has begun to aggressively return capital to shareholders, which we think is another lever that is increasing per share value of the business. 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 bulletproof balance sheet and an average asking price. It's a name we've owned since 2012, and we believe Alphabet will continue to be a strong compounder of value in the future.

Investment heavyweight Blackstone's virtuous cycle is in full swing. Throughout Blackstone's history, excellent investment performance and capital protection have allowed the firm to increase fundraising in existing verticals as well as launch new endeavors. Historically, less than 10% of assets under management mature in any given year, and that number should move lower with continued growth in perpetual capital vehicles. Blackstone's A+ rated balance sheet and capital-light model are the backbone of its 85% of cash flow distribution policy via a variable quarterly dividend. In short, this is a long-duration fee stream and robust capital-raising engine.

Portfolio Activity

We initiated two new positions in Q4, adding Visa and The Walt Disney Company. Visa is a global payments company and is one of the four major US credit card networks (along with Mastercard, American Express and Discover). Visa is accepted at over 80 million merchant locations in 200 countries, interacts with 15 thousand financial institutions and processed 165 billion transactions with $13 trillion of payments and cash volume in the 12-month period ending September 2021. We have always admired Visa's business, but its valuation prevented it from getting over the hurdle and into the portfolio. As of late, the stock has been caught up in indiscriminate selling as part of a larger unwind trade in a richly valued fintech space. Concerns also exist about Visa's slowdown in cross-border transactions due to COVID and its net-revenue sharing arrangements with Amazon. This created an opportunity to purchase a very high-quality business that benefits from substantial barriers to entry, network effects and several structural growth drivers, including consumer spending growth, the shift from cash to card, increasing e-commerce penetration, market share growth and global expansion. We believe Visa has a long runway for revenue growth as cash and checks continue to lose share. Consumers can't use cash and checks online, after all. From a "safer" perspective, the company has a rock-solid balance sheet and has a high conversion of net income to free cash flow, which it uses for share repurchases, dividend growth and tuck-in acquisitions.

Disney is a global leader in media, has one of the best brands in the world with timeless intellectual property (IP) and a unique business model that allows it to monetize its IP through movies, TV, theme parks, toys and licensing. The company's scale in IP, stable of powerful

brands, including Disney, Pixar, Marvel and Star Wars, and global reach is unmatched, creating an enduring franchise. Disney also has a unique culture which is extremely customer centric and appealing to employees. The company is an engaging workplace too, making Disney an attractive home for top talent. The stock has recently been out of favor as COVID has negatively impacted multiple business lines: theme parks, movies, sporting events and media production. Also, growth in its Disney+ direct-to-consumer business has slowed amid a lull in new content and natural maturation after strong early subscriber growth. Disney doesn't look cheap today due to COVID's effect on current earnings; however, we believe a recovery in its theme parks business and an ability to monetize its IP vault sets it up to sustain earnings growth over the long run. Disney has also proven the business is financed well despite the toughest financial conditions in the company's 100-year history. Even with the ill-timed purchase of 21st Century Fox in 2019 creating elevated leverage, the company remains well capitalized, and interest coverage is still strong.

Our sales activity in Q4 was focused on our successes. We fully exited Celanese, a chemicals and advanced materials producer, as shares have benefited from rising raw materials prices. We also trimmed our positions in Alphabet, networking equipment provider Cisco Systems, and financial services companies Goldman Sachs and Morgan Stanley.

Perspective

The past two years have been remarkable. Who could have predicted a pandemic, an unprecedented policy response creating conditions for generational high inflation and record highs in stock prices? To "don't fight the Fed" and "the trend is your friend," we can now add BTD (buy the dip) and TINA (there is no alternative) as investor mantras. Also, who can forget the YOLO trade earlier in the year involving meme stocks pumped on social media. What a time to be a value investor.

Rather than get caught up in investment fads, we continue to search for stocks that meet our "better, safer, cheaper" criteria. We think about our portfolio as a conglomerate. The index is a comparable conglomerate. When we compare these two conglomerates, we see that ours is better with a higher return on equity, is stronger financially with a higher fixed charge coverage ratio and is cheaper selling at a lower P/E on next year's consensus earnings. As a businessperson, we think it's clear which portfolio of businesses you would prefer to own. We think that gives us a nice head start as far as generating both absolute and relative results. Though we cannot predict the timing, we think our continued focus on the key elements of our process—business economics, financial condition and valuations—will prove rewarding for our investors over time.

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. 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 2021. 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 2021: CME Group Inc 2.5%, Arch Capital Group Ltd 2.9%, Koninklijke Philips NV 3.0%, Comcast Corp 3.1%, Swedish Match AB 1.4%, EOG Resources Inc 2.9%, Fresenius Medical Care AG & Co KGaA 1.6%, Samsung Electronics Co Ltd 3.2%, Alphabet Inc 5.7%, Blackstone Inc 2.3%, Visa Inc 2.3%, The Walt Disney Co 2.0%, Cisco Systems Inc 2.0%, The Goldman Sachs Group Inc 2.7%, Morgan Stanley 2.7%. 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.

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Free Cash Flow is a measure of financial performance calculated as operating cash flow minus capital expenditures. **Return on Invested Capital (ROIC)** is a measure of how well a company generates cash flow relative to capital invested in the business. **Fixed Charge Coverage Ratio** indicates a firm's ability to satisfy fixed financing expenses, such as interest and leases. **Normalized Earnings** are earnings that are adjusted for the cyclical ups and downs over a business cycle. **Price-to-Earnings (P/E) Ratio** measures how expensive a stock is. Earnings figures used for FY1 and FY2 are estimates for the current and next unreported fiscal years. **Capital Expenditures (capex)** to either purchase fixed assets or to upgrade existing fixed assets having a useful life longer than the taxable year.

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