Artisan Mid Cap Value Fund

QUARTERLY
Commentary

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

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: ARTQX	**6.62**	**26.35**	**26.35**	**18.06**	**9.83**	**10.48**	**10.48**
Advisor Class: APDQX	**6.66**	**26.57**	**26.57**	**18.24**	**9.99**	**10.58**	**10.52**
Institutional Class: APHQX	**6.69**	**26.65**	**26.65**	**18.32**	**10.07**	**10.72**	**10.59**
Russell Midcap® Value Index	8.54	28.34	28.34	19.62	11.22	13.44	10.50
Russell Midcap® Index	6.44	22.58	22.58	23.29	15.10	14.91	10.79

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 2021	1.20	1.05	0.98
Prospectus 30 Sep 2020[1]	1.22	1.06	1.00

[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.

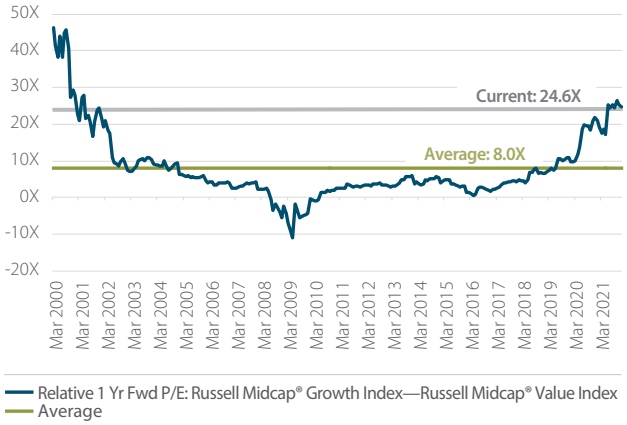
Investing Environment

COVID continued to drive volatility in equity markets in the final months of 2021, but any weakness proved to be short lived as US mid-cap stocks rallied, capping off a strong year for investors. The Russell Midcap® Value Index returned 6.28% in December, driving Q4's gain of 8.54%. 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 6%. With double-digits percentage gains, the top-performing sectors included technology, real estate and utilities.

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 mid-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 well in the up market but modestly trailed its benchmark. Relative performance during the period was largely about what we did or didn't own. Our large communication services sector weighting averaging ~12% versus less than 4% for the index generated nearly all the portfolio's Q4 relative shortfall as the sector was the worst performer by a wide margin. However, stock selection was positive overall, driven by our industrials and health care holdings, helping to offset underperformance in the consumer discretionary sector.

In the consumer discretionary sector, relative performance also suffered from our comparative exposures. Approximately 8% of our 18% average sector weighting during the period was in the weak-performing hotels, restaurants & leisure sub-sector, which is less than 3% of the index. We own two iconic hotel & leisure brands in Marriott and Vail and an asset-light travel agency in Expedia. Though we are substantially overweight the consumer discretionary sector versus the index, we don't own any of the traditional apparel or multi-line retailers, which are popular in growth investor circles. We also have

very few of the specialty retailers, except AutoNation (and this is a car dealer). Aside from performance impacts due to relative exposures, we also had a few individual detractors in the sector, including Thor Industries, a recreational vehicle manufacturer, AutoNation, and H&R Block (HRB), a tax preparer. Despite recent weakness, all three stocks were among our top contributors to returns for the one-year period.

The businesses of Thor, AutoNation and HRB have little in common, but for each stock we saw market sentiment, whether due to omicron or other headlines, drive short-term price moves that did not necessarily reflect underlying progress in their fundamentals. Thor, our biggest Q4 detractor, was one of our top contributors in 2020 and early 2021 as the market was quick to put a premium on RV travel as airlines were grounded and people relied more on driving. Given Thor is a highly cyclical business that has performed well, we chose to sell our position during the quarter, using proceeds for better opportunities.

The shares of AutoNation rose nearly six-fold from March 2020 to October 2021 before pulling back in the last two months of the year. AutoNation's profits recovered swiftly after the business faced dramatic headwinds in the first half of 2020. AutoNation's high-margin parts and service business has unsurprisingly remained a steady profit contributor through the pandemic. What we could not have predicted was the tight inventory conditions in the new and used auto market in the US. Due to strong demand from consumers and limited supply of new and used autos, dealerships like AutoNation are earning record profits on each car/truck sold. While we know these "excess" profits are not a permanent condition, as shareholders we are receiving the direct benefit of the elevated earnings as management is retiring stock aggressively. Even when earnings return to normal levels, which could be years away, AutoNation's business trades for a modest low-double-digit earnings multiple. 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.

HRB's quarterly results were largely in line with expectations. Aside from periodic tax code changes, HRB is generally a steady, low-single-digit growth business. That growth is achieved by maintaining market share, regular pricing increases and ancillary growth in its digital DIY preparation business. While most people file the standard deduction, a complicated tax code, combined with stiff penalties for not filing correctly, creates enduring demand for the company's services. Even as the tax code evolves, we believe the company should remain one of the industry's best brands based on its strong market share position. It's also highly cash-generative, and management prioritizes return of capital to shareholders through dividends and buybacks as HRB has returned ~84% of free cash flow over the past five years. Lastly, expectations remain low for HRB, with the stock selling at a paltry 8X P/E.

Though we discuss just a few holdings in depth in our investor letter, positive contributions came from a variety of stocks as we had 20 holdings with total returns of 10%+ in Q4. Three that we'll discuss this quarter are Centene, Arch Capital and Public Storage. Centene, our top Q4 contributor, is a recent example of how investing in low expectations situations can work out in our favor. Centene is the largest managed care organization by membership across Managed Medicaid and the health insurance exchange marketplace. Managed Medicaid is an important and growing industry serving low-income and disadvantaged populations, and Centene is well positioned within it. However, shares had done little since 2018 as margins remained unacceptably low. We first purchased shares of Centene in July 2020 after the stock weakened on concerns around short-term state Medicaid funding and potential health policy changes following the US election. More recently, Centene's potential self-improvement story attracted the interest of activist investor Politan Capital, which took a meaningful stake in the company and has been pushing for faster changes to the company's board and strategic focus. In December, shortly after news of Politan's involvement, the company announced leadership succession plans and other corporate governance changes, including adding managed care industry veterans as new directors to its board. The stock reacted positively to these developments.

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 trending 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.

Public Storage (PSA) is a real estate investment trust that acquires, develops, owns and operates self-storage facilities. Storage is a superior asset class within REITs for a variety of reasons. First, investors systematically underestimate the low capex burden of storage, which averages only $0.50 per foot per year, resulting in superior free cash flow conversion through market cycles. Next, storage assets in many markets are also highly desirable due to regulations which constrain the ability to add new supply. Finally, storage leases are month to month, which gives the business strong pricing power in inflationary periods. From a "safer" perspective, PSA has low leverage compared to most REITs, has interest coverage of about 8X and can pause

development at any time. At the time of purchase in May 2020, PSA was trading for a 6% unleveraged cap rate, fully accounting for a capex burden, which was almost a 20% discount to NAV (the highest discount to NAV in 10 years). Since our initial purchase, earnings power has been on the rise due to a strong pricing environment that shows no signs of retreating (2022 earnings will be almost 40% higher than 2020). While Public Storage's cap rate has compressed recently, due to the ability to grow square footage organically and through M&A, along with a pristine balance sheet and tremendous pricing power, we continue to hold a stake in the company due to the unique features of the business as described above.

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 with a 7% gain—and lighter exposure to energy—the best-performing sector with a 58% return—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 industrials, consumer discretionary and health care holdings.

Overall top contributors were AMERCO, aforementioned AutoNation and Expedia. AMERCO, the parent company of U-Haul, owns and operates the largest fleet of rental trucks for the DIY mover in the US and Canada. The company also has a rapidly growing self-storage business which now encompasses over 45 million rentable square feet. While U-Haul has long been a steady and growing business, the pandemic has accelerated its top-line growth as mobility across the US is on the rise. As a result, the market has rerated the stock. Despite the rerating, the business has an undemanding valuation due to secular tailwinds and offers attractive returns on reinvested capital. From a financial perspective, the company does employ leverage; however, it is conservatively capitalized and generates solid free cash flow, resulting in a strong financial profile.

Online travel agent Expedia is weathering the pandemic using a flexible cost structure that has allowed it to scale back performance advertising as demand has declined. The business model is attractive because it provides transparency on pricing and a large platform of options for consumers looking to travel the globe. Despite the currently depressed state of global travel, the business's moat remains wide as Expedia is one of only two globally scaled online travel agencies. This scale advantage remains key to our investment case as leisure travel returns to normal in the years to come.

Our biggest detractors for the year were Vimeo, Check Point Software Technologies and Electronic Arts. Vimeo, a video software solutions provider, was a spin-off of IAC/InterActiveCorp in the month of May and is a small position in the portfolio. Though earnings growth has met expectations, the company expects a slowdown in growth in FY22 due to a combination of a longer sales cycle for the enterprise segment and slowing demand in verticals like faith and fitness. The business has a number of moving pieces that may require patience as they play out, including sales force growth, new products and a differentiated approach to pricing that is driven by a more dynamic and diverse product set. We continue to believe the company is well positioned for the secular growth in video consumption but will continue to assess the many crosscurrents.

Check Point, a Q1 2021 purchase, provides computer network firewalls to enterprise customers. We believe the market is underappreciating recent improvements in Check Point's cloud offerings, which are growing rapidly. The company has high customer retention and enviable margins and is amid an upgrade cycle. The company's founder is the largest shareholder and runs the business like an owner. Additionally, Check Point has significant cash flow with nearly $28 per share of net cash and investments to deploy strategically. Recent acquisitions have improved the company's competitive position. While Check Point was a detractor in this period, it is not uncommon for new purchases to continue falling out of favor as we build our positions. We tend to run toward these situations while others run away.

Video game publisher Electronic Arts (EA) had muted performance relative to peers. The company is expanding its moat as COVID-19 pulled forward gamer engagement in 2020 and early 2021. While growth rates have slowed, the long-term value of the company's user community has increased. EA's net cash balance sheet and industry leadership fit well with our philosophy and process, and while the recently acquired Codemasters drew down cash, the balance sheet remains strong, and the deal furthers EA's growth strategy.

Portfolio Activity

We made no new purchases in Q4, but we are beginning to see increased opportunities as some previous highfliers have fallen amid a rotation from higher growth sectors, like software and fintech. If that continues into 2022, we look forward to discussing new purchases in our upcoming letters. In terms of sales, aside from Thor Industries, our only other sale was regional bank Fifth Third Bancorp (FITB). The stock performed strongly in 2021, and as valuations reached our targets, we exited on success. The company's recent rebound is an example of how investing in out-of-favor businesses can lead to alpha. Five years ago, FITB's management developed a plan focused on measurable enhancements to revenue, and we attribute improved performance to these efforts.

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. 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. 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 comprise the following percentages of the Mid Cap Value Fund's total net assets as of 31 Dec 2021: Marriott International Inc 2.5%, Vail Resorts Inc 2.1%, Expedia Group Inc 3.7%, AutoNation Inc 2.9%, H&R Block Inc 1.6%, Centene Corp 2.4%, Arch Capital Group Ltd 2.7%, Public Storage 1.6%, AMERCO 4.1%, Vimeo Inc 0.3%, Check Point Software Technologies Ltd 1.7%, Electronic Arts Inc 1.7%, IAC/InterActiveCorp 1.7%. 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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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. **Price-to-Earnings (P/E)** is a valuation ratio of a company's current share price compared to its per-share earnings. **NAV** (net asset value) represents the assets of a Fund less its liabilities. **Alpha** is a quantitative measure of the volatility of the portfolio relative to a designated index. A positive alpha of 1.0 means the fund has outperformed its designated index by 1%. Correspondingly, a similar negative alpha would indicate an underperformance of 1%. **Return on Equity (ROE)** is a profitability ratio that measures the amount of net income returned as a percentage of shareholders' equity. **Fixed Charge Coverage Ratio** indicates a firm's ability to satisfy fixed financing expenses, such as interest and leases. **Unleveraged Cap Rate (capitalization rate)** is a valuation method used in real estate investing and is based on a property's unlevered yield calculated as net operating income divided by price.

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