Artisan Mid Cap Value Fund

QUARTERLY
Commentary

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

As of 30 September 2022

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 30 September 2022	QTD	YTD	Average Annual Total Returns 1 Yr	3 Yr	5 Yr	10 Yr	Inception
Investor Class: ARTQX	**-6.35**	**-20.64**	**-15.39**	**3.75**	**3.40**	**7.20**	**8.92**
Advisor Class: APDQX	**-6.32**	**-20.58**	**-15.29**	**3.90**	**3.55**	**7.31**	**8.97**
Institutional Class: APHQX	**-6.31**	**-20.52**	**-15.21**	**3.96**	**3.62**	**7.44**	**9.03**
Russell Midcap® Value Index	-4.93	-20.36	-13.56	4.50	4.76	9.44	8.96
Russell Midcap® Index	-3.44	-24.27	-19.39	5.19	6.48	10.30	8.98

Source: Artisan Partners/Russell. Returns for periods less than one year are not annualized. Class inception: Investor (28 March 2001); Advisor (1 April 2015); Institutional (1 February 2012). For the period prior to inception, each of Advisor Class and Institutional Class's performance is the Investor Class's return for that period ("Linked Performance"). Linked Performance has not been restated to reflect expenses of the Advisor or Institutional Class and each share's respective returns during that period would be different if such expenses were reflected.

Expense Ratios	ARTQX	APDQX	APHQX
Semi-Annual Report 31 Mar 2022[1]	1.20	1.05	0.99
Prospectus 30 Sep 2021[2]	1.21	1.05	0.99

[1]Unaudited, annualized for the six-month period. [2]See prospectus for further details.

Past performance does not guarantee and is not a reliable indicator of future results. Investment returns and principal values will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than that shown. Call 800.344.1770 for current to most recent month-end performance.

Investing Environment

Q3 was a tale of two halves. US stocks rallied early in the quarter on better-than-feared earnings, strong top-line growth aided by price increases, and hopes of a Federal Reserve pivot due to peak inflation, before ultimately succumbing to bond market volatility. US Treasury yields continued their sharp ascent as it's become evident the Fed has more work to do on the inflation front given tight labor markets and strong wage growth. To put the magnitude of the bond market carnage into perspective, the yield on the US 2-Year Treasury bond has risen 400bps in the past year—the kind of move we haven't seen since the late 1970s/early 1980s. Bonds, which are supposed to be less risky than stocks, have incurred steep price declines, wreaking havoc on balanced portfolios. As perspective, the iShares 20+ Year Treasury Bond ETF (TLT), a widely held Treasury ETF that invests at the long end of the yield curve, has returned -30% YTD.

Taking their cues from the bond market, stocks have re-rated lower in 2022 from the readjustment to the cost of capital and fears that tighter monetary policy may lead to an economic hard landing. In Q3, the Russell Midcap® Value Index fell 4.93%—its third-consecutive quarterly decline. All sectors finished lower. Communication services, consumer staples and real estate were weakest. Energy and industrials stocks held up best, with small (<1%) losses. From a style perspective, growth stocks pulled ahead of value for the quarter, after being trounced by value in the first half of 2022. FX market volatility has been another major story this year. A hawkish Fed, higher US interest rates and investors seeking safety are among the factors driving the rapid rise in the US dollar. A strong US dollar has the effect of tightening financial conditions globally, and when it appreciates rapidly as it has, there's more risk to financial system stability. For US companies that generate sales overseas, negative currency translation effects are an additional headwind to profits, on top of potential higher input, labor and borrowing costs.

The world today faces many challenges, perhaps more than we've seen in several decades. Inflation is running at its highest levels in 40 years; several European economies, as well as the US, are heading toward, or already are in, a recession; and China's property market is wobbling. There are record levels of private and public debt, spurred on by interest rates artificially repressed by central banks and decades of deficit spending. There is a tense and escalating ground war in Europe, the first since WWII. This is causing a variety of energy crises on the cusp of winter in the Northern Hemisphere. Currency fluctuations are becoming problematic for governments and corporations, evidenced by the Bank of England's intervention in September. Growth is slowing across the globe, in a system that is set up to thrive mainly under growthier scenarios, and the relationship between two of the world's superpowers is growing ever strained. All this is on the heels of a global pandemic. How is that for a dire set of circumstances? While this all sounds quite depressing, if history is any guide, these challenges should create great long-term buying opportunities for investors.

Performance Discussion

Our portfolio underperformed the Russell Midcap® Value Index in Q3. An above-benchmark weighting in the communication services sector was unfavorable, as it's been throughout the past year. Additionally, stock selection was negative, driven by our communication services, industrials and consumer staples holdings. In these sectors, key individual detractors were Cable One, CAE and Tyson Foods.

Cable One (CABO) is a small cable company operating in rural US markets. CABO and other cable stocks have been punished due to concerns about increasing competition from wireless providers. While wireless companies are entering new markets, 5G is not currently competitive with cable's download speeds, and based on the physics of wireless data delivery, 5G is unlikely to be competitive with cable for many years, if ever. Cable continues to have a competitive advantage with respect to network speeds, reliability and capital intensity. We like the cable business in general due to its high recurring revenue, pricing power and low capital intensity, but there are additional elements in our investment case unique to CABO. Unlike the larger cable companies, CABO has employed a different playbook by de-emphasizing video and phone—two thirds of cable providers' triple-play bundles—to focus on broadband to homes and businesses. Why is this important? CABO faces far less competition in this business than the average large MSA (Metropolitan Statistical Area) cable company, like Comcast and Charter. Less than 30% of CABO's customers have access to another provider that can offer speeds over 100 mb/s. Fixed wireless is less competitive, with speeds of under 100 mb/s and spotty execution. As customers cancel video subscriptions, many switch to streaming video over the Internet, and this increased data usage requires a more robust connection, driving growth in CABO's Internet business. This playbook has been working for the company, as it has steadily grown in each of the past six years. At the time of our purchase in May 2022, the stock was off about 47% from its high in September 2021, allowing us to purchase shares at a mid-teens P/E multiple for a business that has been growing EPS at a 20%+ annualized rate. We believe this valuation tilts outcomes in our favor.

CAE is an aerospace and defense company providing pilot training via either the sale of full flight simulators or third-party training services. Over its history, the company has transformed itself from a flight simulator equipment maker to primarily a services company with a high share of recurring revenues. Routine training for certification upkeep and long-term customer contracts provide strong earnings visibility. Additionally, increased outsourcing of training by airlines and growing defense budgets around the world act as structural tailwinds. The company's defense business is undergoing a margin improvement effort under new leadership following its 2021 acquisition of L3Harris Technologies' military training business. However, this initiative has experienced turbulence as of late as profitability in its defense segment fell in the previous quarter due to non-recurring charges in two legacy contracts, as well as due to inflation and supply chain headwinds. The higher-than-expected costs for these specific contracts led to a top-down review of its portfolio to ensure appropriate visibility and transparency, and the company did not identify any additional issues. CAE was deeply impacted by COVID-19 and results have not fully recovered yet, but this offered us an attractive entry point to purchase a high-quality business that is well-positioned in a growing industry having high barriers to entry.

The largest food processor in North America, Tyson Foods is a marketer and distributor of chicken, beef, pork and prepared foods. Top-line growth has remained strong, but margins have been volatile. The margin issues have been primarily in its chicken and prepared foods businesses, as beef margins have benefited from ample cattle supply, global export demand and high US domestic retail prices. In the other segments, inflationary pressures have ranged from higher raw material costs to supply chain constraints and labor availability issues. Some of these factors are out of its control, but the company is making efforts to increase labor availability and shift contract terms toward variable price models that could repair margins more quickly. The business has improved over time—the company has spent years moving away from commodity processing toward a greater mix of higher margin branded products and packaging. This has contributed to solid return on invested capital and free cash flow generation. Additionally, revenue growth has benefited from a natural long-term health and wellness tailwind of protein demand rising in the US and globally as diets improve by replacing processed foods with healthier alternatives like protein.

First Citizens BancShares and STORE Capital were among our top contributors. First Citizens BancShares is a newer position—added to the portfolio in Q2 2022. Headquartered in Raleigh, North Carolina, with the majority of its banking operations in the Carolinas, First Citizens is one of the largest family-controlled banks in the US. It's primarily a commercial lender, with commercial loans comprising about 67% of total loans. The bank is run by and almost fully controlled by CEO Frank Holding and his family members. They have significant ownership, aligning their interest with minority shareholders like us. They've done an admirable job of growing the bank by keeping a strong capital and liquidity profile that allows for opportunistic M&A during times of market stress. First Citizens used its position of strength in the Global Financial Crisis to acquire when others could not. During the COVID-induced stress of 2020, it flexed its muscles again with the acquisition of CIT at a great price. The combined entity is a top 20 US financial institution with over $100 billion in assets. Besides cost savings from the CIT acquisition, a favorable interest rate environment provides potential upside to net interest margins. Additionally, the bank is well capitalized with over $10 billion of cash that can fund loan growth or share buybacks. Our opportunity to purchase the stock at attractive prices resulted from the company's below-expected 2023 EPS guidance that was mainly related to one-off revenues at CIT that are unlikely to recur and not reflective of a fundamental weakness.

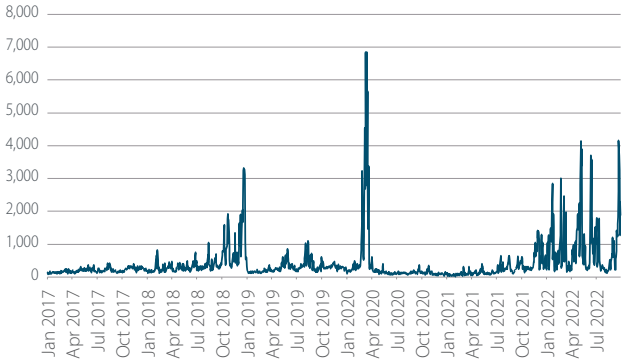
STORE Capital (STOR) is a triple net lease REIT. A triple net lease utilizes a unique structure in which the lessee pays the property's real estate taxes, insurance and maintenance costs. In a typical transaction, STOR purchases an asset and leases it back to a company for the company's use, freeing up capital for the lessee. Triple net leasing is less capital intensive than the average real estate business. The stock rose on news that STOR agreed to be acquired by Singapore sovereign wealth fund GIC and private equity firm Oak Street for $32.25 per share in cash, representing a 20.4% premium to the stock's prior close.

Portfolio Activity

In our review of the current investment environment, we painted a dire picture of conditions, but we noted that past experience foretells better long-term returns following similar periods. Trying to effectively forecast how a set of circumstances will turn out will undoubtedly teach you a fantastic lesson in humility. There are thousands, if not hundreds of thousands, of variables in a global market, rendering a correct forecast of the macro future almost impossible. However, we use the circumstances that make other investors fearful to our advantage. We basically classify markets into one of two states: risk seeking or risk fearing. In a risk-fearing market like early 2020 and again today, we use investors' tendency to sell stocks into a declining market to our advantage. It gives us an opportunity to buy high-quality companies at significant discounts to their underlying worth. We are certainly aware that investing in parts of the economy during these periods may involve businesses that are slowing, sometimes for an extended period. However, we put our margin of safety criteria to work, combine it with a long-term time horizon, and provide liquidity to those investors that want to bail out into a selloff. This approach takes patience, a strong stomach at times and, most importantly, a strong understanding of the fundamental value of a business.

We are currently busier than we have been since the throes of the pandemic in early to mid-2020. Earnings expectations have become more reasonable. The cost of capital is now real, and the result is valuations have compressed. These conditions have given us a green light, and our pipeline of investment candidates is filling up. The improving buying opportunity is evident in the number of new 52-week lows across US exchanges, which is near the highest levels since the pandemic and of the past 5 years (Exhibit 1).

Exhibit 1: Bloomberg Total Number of New 52-Week Lows on US Exchanges



Source: Bloomberg/Artisan Partners. As of 30 Sep 2022. The Bloomberg Index of 52-week lows contains common stocks, ETFs and ADRs. **Past performance does not guarantee and is not a reliable indicator of future results.**

While our list of potential candidates is filling up, we are being patient. We added one new position in Q3: Warner Bros Discovery (WBD). Warner Bros Discovery is a global media and entertainment company that is the result of the 2022 merger of Discovery and WarnerMedia. Warner is known for its theatrical releases, networks (CNN, TNT, TBS), and pay television network HBO and related OTT streaming service HBO Max. The legacy Discovery business distributes content across US and international networks, such as HGTV, Discovery, TLC, Food

Network and Animal Planet, as well as its own streaming service Discovery+. The company's large collection of lower budget, unscripted programming is highly popular. The combination creates a good mix of content that should attract viewers. Discovery already had significant success with rolling out Discovery+ as it had better-than-expected subscribership. Warner's HBO Max has also been a success, generating subscriber growth for HBO for the first time in a while. Media and entertainment stocks have come under pressure due to skepticism about the industry's long-term economics. Our view is streaming is a scale and intellectual property business that will result in a few large winners, and we believe HBO Max will be among this group. WBD looks like a bargain, selling at a double-digit FCF yield.

We had one sale this quarter. We exited our position in Lions Gate Entertainment, a TV and film content producer, in favor of better opportunities, given our disagreement with its strategic direction and our view of its balance sheet potentially impeding on its strategy.

Perspective

Various policy interventions and bailouts over the past couple decades have caused a number of market distortions, not just the ones we see today. For example, there hasn't been a true cost of capital in the markets for many, many years now. As such, there's been very little penalty for companies that do wrong or risky things; for example, overleveraging their balance sheets hasn't cost much in terms of punitive covenants or high interest payments, corporations have made expensive acquisitions given the cheap cost of debt, and investors have encouraged stock buybacks at a greater and greater pace with the assistance of leverage. When your cost of capital is so low, it's easy to see why this has happened. As the cost of capital, and hence the discount rate, goes ever lower, the present value goes ever higher. It's just math. But it doesn't mean there is any less risk or greater certainty in the stream of cash flows.

Given this backdrop, the low-rate environment had supercharged the success of growth and momentum strategies. In this environment of free money, companies were rewarded for pursuing revenue, not profit, and many unproven and often questionable business models were allowed to operate. Investors in those companies enjoyed strong returns despite owning less proven streams of cash flows, much of which were expected to happen way out into the future (i.e., long duration stocks). On the other hand, value strategies that are typically associated with companies that have higher current cash flows as well as higher dividend payouts, have lagged to a significant degree. For disciplined investors with a rigorous process, this has been a large style headwind. You can see this in comparing the performance of the Russell 1000® Growth and Value Indices—the growth index has trounced the value index by over 120% over the past decade. This has reversed since late 2020, and value has finally started to outperform, markedly so on a YTD basis. It's been a very lonely decade to be a value investor, we assure you.

To our credit, we have held firm to our process, not willing to reduce our hurdle rates or pay higher and higher multiples for companies that are showing some semblance of growth, or alternatively, hide out in expensive safe havens. To our detriment, this has cost us relative performance points versus some of our peers and at times versus the index. However, we are focused on generating a positive absolute return for our investors and believe the cost of capital should always be reflected in the riskiness of the cash flows a business produces. That approach is more timeless and is less affected by the whims of the market. Fortunately, after over a decade, value strategies are beginning to get some traction again with investors.

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. The value of portfolio securities selected by the investment team may rise or fall in response to company, market, economic, political, regulatory or other news, at times greater than the market or benchmark index. A portfolio's environmental, social and governance ("ESG") considerations may limit the investment opportunities available and, as a result, the portfolio may forgo certain investment opportunities and underperform portfolios that do not consider ESG factors. 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 30 Sep 2022. Those views may change, and the Fund disclaims any obligation to advise investors of such changes. For the purpose of determining the Fund's holdings, securities of the same issuer are aggregated to determine the weight in the Fund. The holdings mentioned above comprise the following percentages of the Mid Cap Value Fund's total net assets as of 30 Sep 2022: Cable One Inc 1.6%, CAE Inc 0.9%, Tyson Foods Inc 2.4%, First Citizens BancShares Inc 2.8%, STORE Capital Corp 1.9%, Warner Bros Discovery Inc 2.1%. 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. **Earnings per Share (EPS)** is the portion of a company's profit allocated to each outstanding share of common stock. **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. **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. **Free Cash Flow Yield** is an overall return evaluation ratio of a stock, which standardizes the free cash flow per share a company is expected to earn against its market price per share. The ratio is calculated by taking the free cash flow per share divided by the share price. **Exchanged-Traded Funds (ETFs)** are securities that track an index, a commodity or a basket of assets like an index fund, but trade like a stock on an exchange. ETFs experience price changes throughout the day as they are bought and sold.

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