Artisan Mid Cap Value Fund

QUARTERLY
Commentary

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

As of 31 December 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 31 December 2022	QTD	YTD	Average Annual Total Returns 1 Yr	3 Yr	5 Yr	10 Yr	Inception
Investor Class: ARTQX	**9.36**	**-13.21**	**-13.21**	**4.96**	**4.30**	**7.75**	**9.26**
Advisor Class: APDQX	**9.45**	**-13.07**	**-13.07**	**5.12**	**4.46**	**7.87**	**9.31**
Institutional Class: APHQX	**9.45**	**-13.01**	**-13.01**	**5.18**	**4.53**	**7.99**	**9.38**
Russell Midcap® Value Index	10.45	-12.03	-12.03	5.82	5.72	10.11	9.35
Russell Midcap® Index	9.18	-17.32	-17.32	5.88	7.10	10.96	9.31

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 2022	1.20	1.04	0.98
Prospectus 30 Sep 2021[1]	1.21	1.05	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

After three consecutive negative quarters, US stocks rebounded in Q4 due to accumulating data showing US inflation peaked, a resultant calmer US bond market and a moderation in the pace of Federal Reserve tightening as the Fed Funds rate neared its projected terminal rate. This gave investors hope the painful interest rate adjustment that drove multiple compression in US equities over the past year was almost over. The Fed raised its benchmark rate 50bps in December to 4.50% following multiple 75bps hikes, and the yield on the 10-Year Treasury Bond was little changed in Q4 after increasing more than 230bps through the first three quarters of the year. Despite the bounce in equities, there remains concern that tighter monetary policy's well-known long and variable lags on economic growth and corporate profits may be a 2023 story, although there's a school of thought that due to an inverted yield curve, forward-looking markets are already looking ahead to easy Fed policy if there's any economic softening.

All sectors in the Russell Midcap® Value Index advanced in Q4, with strength across cyclicals (e.g., consumer discretionary and industrials) as well as defensives (e.g., health care, consumer staples and utilities). With a 17% gain, energy was the best performer overall, as it was throughout 2022—finishing the year ahead of all other sectors by a wide margin. Energy shares benefited from rising oil and gas prices, with Russia's invasion of Ukraine contributing to the supportive commodity price backdrop. Oil prices trended lower in the back half of the year, but energy stocks remained winners, buoyed by their reputation as inflation hedges. The weakest sectors in Q4 were communication services, information technology and real estate—returning low- to mid-single digit gains. The unifying theme among these groups was the steep rise in interest rates and, therefore, cost of capital, driving their share prices disproportionately lower. In terms of style returns within the US mid-cap segment, value beat growth in Q4 by 355bps, adding to its large performance edge of nearly 1,500bps in 2022. Value has gained substantial ground on growth since the start of 2021; however, due to growth outperforming value for much of the past decade, growth still leads over 5 and 10 years.

While a bear market in stocks garnered headlines, the biggest story of 2022 was undoubtedly the bond market and its reverberations across other asset classes, from equities to real estate. Belying its standing as a safer, less volatile asset class, fixed income suffered a historic drawdown. The Bloomberg US Aggregate Bond Index, a total bond market index that tracks both government debt and investment grade corporate bonds, lost 13%, marking its worst year ever dating back to 1976. Similarly, the 10-Year Treasury declined more than 10%, its biggest decline since 1926, while the 30-Year Treasury fell 39%—the most on record going back to the 1700s! Consequently, there were few diversification benefits to be had in the classic 60/40 diversified stock/bond portfolio, which turned in its third-worst year since the 1930s.

Performance Discussion

Our portfolio participated in the strong rebound in stocks in Q4 but slightly trailed the Russell Midcap® Value Index. Our overall stock picking in Q4 was positive but was negated by the impacts of our relative sector weightings. Sector positioning was a performance headwind principally due to an above-benchmark weighting in communication services and lighter weightings in energy and materials. With respect to our positive stock selection in Q4, several sectors stood out, namely, technology, financials and industrials.

In the energy sector, we have had a smaller weighting than the benchmark because we find it more difficult to find names in the mid-cap segment that meet our stringent criteria for business quality. In general, the smaller operators have less ability to scale activity, possess higher debt levels and lack diversification by business lines, commodities and geographies. These factors create additional risk in a sector that already has above-average risk due to the volatility in the underlying commodity prices, which these businesses do not control.

Communication services is a diverse sector that includes media and entertainment companies, cable operators, streaming services and video game publishers. These companies have varying levels of economic sensitivity and distinct earnings drivers, but we think markets became overly macro-driven in 2022, with capital allocated at the sector level as investors positioned portfolios for an inflationary environment. This was compounded by negative momentum in the weakest areas of the market, driven by tax-loss selling—the magnitude of which seems to have been larger this year given the broad declines across asset prices. As tax-loss selling is tied to the calendar, its effects appear to be reversing early in 2023 as the communication services sector has been the top gainer year to date as we write this letter in mid-January, and our portfolio has benefited accordingly.

Three of our biggest detractors in Q4 were found in the communication services sector: IAC/InterActiveCorp (IAC), Warner Bros Discovery (WBD) and Cable One (CABO). IAC, a media and Internet company, is a diversified collection of eclectic businesses that includes a large controlling stake in public company ANGI, ownership of digital and print publisher Dotdash Meredith and a 16.5% stake in public company MGM Resorts. A challenging advertising environment and the transition of Dotdash Meredith's print business to digital have contributed to growth slowing, while ANGI's results have been disappointing, which prompted IAC to part ways with its CEO. Additionally, compression in valuations due to rising interest rates has especially impacted stocks of those companies, like IAC, with nascent assets that previously received greater credit for future growth. These factors have contributed to its depressed valuation, which looks particularly cheap on a sum-of-the-parts analysis. Despite disappointing recent results, IAC's businesses remain well positioned

for the long-term growth opportunities in digital media. The company also has significant excess cash, a history of putting capital to good use through M&A and a long successful track record of growing controlled businesses. We added to our position in IAC in Q4, taking advantage of cheaper prices.

WBD 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 over-the-top 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+. We believe the total portfolio of content and entertainment assets should provide a compelling direct-to-consumer offering to attract viewers and the scale to invest in original content. There is a lot of opportunity, but there's also uncertainty related to the merger's integration and realized cost synergies. These questions, in addition to a challenging macro environment for advertising and foreign exchange headwinds, have been overhangs on the stock price. Further, 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.

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 healthy operating leverage, 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 rural 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 low-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.

Turning to winners, Arch Capital, a global reinsurer, was our top contributor in Q4. In October, shares shot higher on news the stock was being added to the S&P 500® Index; however, there are fundamental factors also at play. Though catastrophe losses have been larger than expected, due partly to Hurricane Ian, the reinsurance markets are in an upswing in terms of pricing and premium growth, while rising interest rates are boosting net interest income. 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. It has shown discipline in pulling back from writing business when pricing is soft, patiently waiting for turns in the cycle to put its strong capital position to work.

Other strong gainers were NOV, a global energy services company, and Omnicom Group (OMC), a global advertising and marketing services holding company. NOV sells equipment and components used in oil and gas drilling and production operations. Through several significant acquisitions in the 1990s and 2000s, NOV transformed itself into a leader in many attractive high-margin lines of business. NOV has a moat around the rig technologies business, and unlike many energy-focused companies, has a history of generating free cash flow (FCF) and acceptable returns on tangible capital. When we purchased NOV in Q3 2021, it was our first foray into the energy sector in more than a year. At the time, the business was dealing with the overhang of excess equipment in the onshore business and still absorbing aftereffects of the last offshore rig-building cycle that left the industry oversupplied. But the cycle appears to be turning in NOV's favor as capex budgets are now rising and later cycle offshore drilling markets are showing signs of stabilization. NOV's valuation remains undemanding, in our view, and we believe margins still have much further to rise as the business recovers and cost savings opportunities are realized.

Shares of OMC moved higher on better-than-expected organic revenue growth and increased full-year guidance. The business, while cyclical due to its ties to ad spend, is a royalty on competition as clients around the world seek OMC's expertise in creating, managing and tracking advertising campaigns. The business generates strong free cash flow, which has funded capital return in the form of share repurchases and dividends (3.4% current dividend yield), and is mostly a cost-plus business, which lessens risk of margin pressure. OMC also has a flexible cost model allowing it to cut overhead during economic downturns to protect operating profit. While we cannot predict the economic cycle, OMC is a business that has delivered high returns on equity over a full business cycle and is currently selling at an attractive ~12X earnings.

The portfolio's performance in Q4 was emblematic of the full year. Our portfolio trailed the Russell Midcap® Value Index as strong stock

picking was more than offset by negative sector allocation impacts. Our heavier exposure to the communication services sector and lighter weightings in energy and utilities were the main performance headwinds. Stock picking was particularly strong in the technology, financials and consumer discretionary sectors. At the individual stock level, our biggest detractors in 2022 were aforementioned IAC, Expedia Group and the Carlyle Group. Expedia, an asset-light online travel agency, and other travel and leisure stocks were broadly weak following strong gains in 2021 when economic reopening plays were most in favor. While it's helpful to put recent declines in context given prior gains, we can't help but be surprised by the magnitude of the declines considering the strong ongoing recovery in travel demand. Moreover, this demand has held up even in the face of higher prices from airfare rates. Expedia's results corroborated the wider rebound seen in travel demand, but there are some concerns about incremental margins, European exposure and market share inroads by rival Booking.com. We find Expedia's business model highly attractive. As one of only two globally scaled online travel agencies, it has a wide economic moat. This scale advantage remains key to our investment case as leisure travel normalizes in the years to come. There's also potential for further margin improvement due to new management's focus on cutting costs and a more sensible brand strategy. Based on our estimates of earnings power, shares currently trade cheaply at just 10X-11X.

Carlyle is a global alternative asset manager known for its best-in-class private equity business that we purchased in Q1 2022. We had been monitoring the new CEO's culture transformation over the past year. CEO Kewsong Lee had laid out a roadmap to take Carlyle to the next level as a growing, diversified alternatives platform rather than just primarily a private equity firm by investing in talent and performance in secularly growing areas, and Carlyle's early stages of the turnaround had been impressive. Additionally, the company has a pristine balance sheet and an attractive valuation. The share price weakness resulting in an attractive entry point was driven by the market's concerns that higher rates would hurt realizations and that 2023 will have "bad comps" as the fundraising cycle concludes. We believed these fears were misplaced. In August, CEO Kewsong Lee abruptly stepped down months before the scheduled end of his five-year contract, raising questions about the company's succession planning and strategic direction. As our thesis was predicated in part on Kewsong's leadership and vision, we are still digesting what this means for the business going forward. The stock price is down significantly from our initial purchase in January 2022 and now trades cheaply at just 7X 2022 consensus earnings, while also yielding 4.3%. At these levels, we believe much of the downside has been de-risked. We remain investors but are weighing our options.

Our top three contributors for the full year were NOV, Arch Capital Group and H&R Block. Tax preparation company H&R Block benefited from increased tax filing complexity given the influences of increased retail trading in stocks and cryptocurrency and one-time child tax credits in the 2021 tax year. A mix shift toward more complex tax filings led to share gains in the higher value-add assisted tax prep category. In an inflationary environment and amid concerns of economic slowing due to tightening financial conditions, investors naturally value H&R Block's pricing power, steady growth characteristics, strong free cash flow and robust return of capital. Through the ups and downs of the economic cycle, we believe the company should remain one of the industry's best brands based on its strong market share positions.

Portfolio Activity

If we could in one word sum up our approach to adding new names to the portfolio this year, it would be, "patience." We made just one new purchase in Q4 and have averaged one to two new names per quarter. Despite our patience, we are finding more opportunities today. With a truer cost of capital returning, valuations have compressed, and earnings expectations are coming down given concerns about higher costs and a looming recession. As a result, our research lists are the longest they have been since early 2020 when stocks sold off sharply during the early throes of the pandemic.

In Q4, we purchased Washington Federal (WaFd), a bank holding company based in Seattle that operates in the western US. WaFd has transitioned from a thrift to a diversified commercial bank by investing in technology and diversifying into new customer groups and geographies. Despite its evolution, its overall ethos has remained the same: "strong balance sheet, strong customer relationships and strong credit." Our opportunity to invest came when the stock price reacted negatively to WaFd's announced acquisition of Luther Burbank, a California-based thrift that resembles WaFd from 15 years ago, in an all-stock deal worth roughly $654 million. The purchase price was far below tangible book value and is immediately accretive to book value, capital ratios and to 2024 EPS. The deal facilitates WaFd expansion into California, where it can roll out the same playbook it used to transform itself into a commercial bank. Importantly, we believe in WaFd's management team, which has shown itself to be disciplined and shareholder oriented. Over the past five years, WaFd has retired approximately 33% of its shares while paying a dividend that currently yields 2.8%.

We had one sale this quarter, exiting STORE Capital (STOR), a triple net lease REIT, after the stock rose on news STOR agreed to be acquired by Singapore's 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.

Perspective

It's easy to lose sight of how quickly the investment environment has shifted in the past year. Consider the smorgasbord of acronyms previously in vogue that had entered the investing lexicon during the post-global financial crisis period, from ZIRP (zero interest rate policy) to TINA (there is no alternative) and FOMO (fear of missing out). Today, with the risk-free rate north of four percent, there is an alternative. Besides the immediate implications for valuing a business, a higher cost of capital creates a hurdle rate for stocks to deliver actual

cash flows to shareholders and should favor shares of companies that produce needed and valued goods and services rather than those that feed only investors' hopes and dreams.

Since the founding of our investment team, we have required each of our portfolio companies to possess attractive business economics, a sound financial condition and sell at an attractive valuation. We seek companies with strong financial conditions because we believe better balance sheets should contribute to resilience in times of economic stress and/or enable companies to take advantage of industry downturns versus weaker competitors. However, for most of the post-GFC period, with interest rates kept artificially low, there were many companies that probably shouldn't have survived but were able to continue operations or even thrive. Additionally, when interest rates are higher, debt loads have a greater impact on earnings. Quite simply, interest expense should increase as companies roll their debt. We are not applying our investment process any differently today than we did when rates were close to zero. However, we welcome a return to a truer cost of capital and a company's financial condition mattering once again, and we believe this will serve our strategy well going forward.

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 Bloomberg US Aggregate Bond Index is a total bond market index that tracks both government debt and investment grade corporate bonds. 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 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 31 Dec 2022: IAC Inc 1.7%, Warner Bros Discovery Inc 1.5%, Cable One Inc 2.2%, Arch Capital Group Ltd 3.4%, NOV Inc 3.1%, Omnicom Group Inc 2.2%, Expedia Group Inc 2.0%, The Carlyle Group Inc 1.3%, H&R Block Inc 1.5%, Washington Federal Inc 1.5%. 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. **Dividend Yield** is a financial ratio that shows how much a company pays out in dividends each year relative to its share price. **Return on tangible capital** measures the rate of return on tangible common equity or shareholders' equity less preferred stock, goodwill and other intangible assets. **Price-to-Earnings (P/E)** is a valuation ratio of a company's current share price compared to its per-share earnings. **Tangible Book Value** is a measure of a company's shareholder equity after removing any intangible assets.

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A R T I S A N  P A R T N E R S

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