

Artisan Value Income Fund

QUARTERLY Commentary

Investor Class: APFWX | Advisor Class: APDWX | Institutional Class: APHWX

As of 31 March 2023

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.

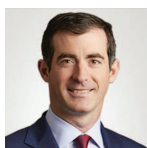
Attractive Business Economics

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 March 2023	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception
Investor Class: APFWX	1.41	1.41	-7.57	—	—	—	-6.83
Advisor Class: APDWX	1.42	1.42	-7.54	—	—	—	-6.78
Institutional Class: APHWX	1.42	1.42	-7.52	—	—	—	-6.76
S&P 500® Index	7.50	7.50	-7.73	—	—	—	-3.97
Dow Jones US Select Dividend Index	-1.82	-1.82	-4.58	—	—	—	-0.62

Source: Artisan Partners/S&P/S&P DJI. Returns for periods less than one year are not annualized. Class inception: Investor (28 February 2022); Advisor (28 February 2022); Institutional (28 February 2022).

Expense Ratios (% Gross/Net)	APFWX	APDWX	APHWX
Annual Report 30 Sep 2022 ^{1,2}	13.46/1.20	9.98/1.10	2.55/1.05
Prospectus 30 Sep 2022 ^{2,3}	13.46/1.20	9.98/1.10	2.55/1.05

¹For the period from commencement of operations 28 Feb 2022 through 30 Sep 2022. ²Net expenses reflect a contractual expense limitation agreement in effect through 31 Jan 2024. ³See 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

US equities overcame a banking crisis and rising recession fears to finish higher in Q1. Risk assets benefited from further signs of cooling inflation, lower long-term Treasury yields and expectations of easier monetary policy in the second half of 2023. The S&P 500® Index gained 7.50% in Q1. However, there was substantial performance dispersion within US equities by market capitalization, style and sector. Substantial gains by a handful of mega-cap stocks (i.e., the FAANGs+) that have big index weights drove strong outperformance for large caps and growth stocks. In comparison, the Russell 1000® Value Index and the Dow Jones US Select Dividend Index returned 1.01% and -1.82%, respectively. Indeed, more than 88% of the S&P 500® Index's Q1 return was generated by just 10 names, many of which were technology stocks that had trailed in 2022.

Besides the tech sector, which gained 24%, the S&P 500® Index's returns were driven by strength within the communication services and consumer discretionary sectors. All other sectors generated quarterly returns of -5% to +5%. Lagging sectors were financials due to weakness in banks, energy on lower oil prices and health care driven by declines in pharma and health care providers and services.

The biggest story in Q1 was undoubtedly the events of mid-March in the regional banking sector. There's a saying among investors, "The Fed will hike interest rates until something breaks." Certainly, we're beginning to see the effects of one of the fastest ever Fed rate-hiking cycles. The failure of Silicon Valley Bank (SVB)—the largest bank failure since the 2008 financial crisis—was in many respects an outlier due to its amount of unrealized losses on the balance sheet, share of uninsured deposits and extremely geographically concentrated client base. However, tighter policy is clearly putting stress on the wider financial system. UBS' arranged takeover of fellow Swiss bank Credit Suisse just a few days after SVB's collapse was further evidence of that. This may not be a credit crisis like that of 2008 or even a liquidity crisis, but with 3-month T-bills at 5%, savers have options beyond their bank account. The dynamic of low-cost deposits flowing out of the system and into higher yielding money markets and bond markets, increased price competition for remaining deposits and the significantly inverted yield curve are major headwinds for bank earnings prospects.

The immediate reverberations of banking sector turmoil were felt in government bond markets. The 2-Year Treasury yield fell more than 100bps over a 3-day stretch—its largest 3-day decline since the October 1987 stock market crash—on a flight to safety and a recalibration of the path of future interest rates. As March closed, relative calm had largely returned to markets following decisive government actions that included a new emergency lending facility and an implicit guarantee for deposits at troubled institutions. Concerns about financial system stability will likely put pressure on the Fed to slow or pause rate hikes as banks are clearly struggling with the inverted yield curve. These conditions tend to cause a slowdown in lending, which should help tamp down inflation. Overall, while economic conditions have slowed since 2021, consumers are well

financed, the job market is strong, and lending has not been too aggressive, which are generally strong supporting factors for normal economic activity. Regardless, we are not economic forecasters. We can see the inverted yield curve just like everyone else can, but our focus is on bottom-up company research rather than trying to predict the next recession. The work we do each day is preparation that should better position us to take advantage of opportunities to invest in good businesses at attractive prices. We believe these investment decisions, more than the short-term ebbs and flows in markets and the economy, are what should drive long-term investment success.

Performance Discussion

Our portfolio generated a positive return in Q1 yet lagged the S&P 500® Index. Relative performance was largely a function of the index's sector weights that are markedly different than those of our portfolio. These differences can drive large variations in short-term performance as demonstrated in Q1. Our much smaller weighting in the technology sector (5% vs. 24%) and above-benchmark weighting in financials (24% vs. 14%) were the main contributors to our relative performance result given the huge divergence in these sectors' returns. Additionally, our mix of technology and consumer discretionary stocks trailed their index counterparts. In the technology sector, our portfolio's lack of exposure to software was a detriment. Likewise, in the consumer discretionary sector, there were outsized gains in select areas, such as autos, where we have zero exposure.

Our biggest detractors largely consisted of financials holdings due to the tumult in the banking sector. These included Bank of America and Washington Federal, as well as new Q1 purchases PNC Financial Services and M&T Bank. While these banks are not immune to industry-wide headwinds from accelerating deposit costs, pressured net interest margins and fleeing deposits, we do not see them having similar levels of risk, with respect to uninsured deposits and unrealized losses that contributed in varying degrees to the collapses of other banks in March. As investors, we cannot avoid risk. However, we are willing to take risk if we are being compensated appropriately. These are banks we have known for years. They are well-managed and have solid capital positions and liquidity. At the end of Q1, we had an ~11% weighting in banks comprising the four aforementioned stocks, in addition to Fifth Third Bancorp, US Bancorp and Comerica. We believe the range of probabilities and long-term outcomes are tilted in our favor at current prices but are proceeding with caution for several reasons. First, while we believe deposit-runs have likely burned themselves out, there is a non-zero risk these runs spread wider than our base case. Second, we expect more regulation in coming years which will increase the cost of doing business, potentially in exchange for higher FDIC limits. Third, at the very least we expect banks to cease buybacks for the rest of the year to build up liquidity and capital ratios. There is an increasingly more likely outcome that banks issue equity capital and preferred stock once markets stabilize. Fourth, with the banking system in shock, it will likely retrench, which will constrict capital to the US economy. Coupled with the "long and variable lags" of Fed policy, this will slow

US economic growth beyond what private credit markets can make up.

When the events in the banking sector occurred in March, shares of Corebridge Financial sold off along with the broader sector even though Corebridge is not a bank. Corebridge Financial, a provider of life insurance and retirement solutions, was previously a unit of AIG and a September 2022 IPO. It was a new purchase in the portfolio this quarter. Besides a more attractive asking price due to the events of mid-March, our thesis is now that Corebridge is not a part of a large inefficient and capital-constrained parent, the company should have plenty of room to improve its competitive position. Establishing new processes that both improve capabilities and wring out efficiencies as a standalone entity should help improve ROE in coming years. It has a 4%+ dividend yield and a double-digit free cash flow yield, even after a year in which negative fixed income and equity markets reduced fee revenue. In addition to the dividend, free cash flow will be used to ensure holding company liquidity, repurchase stock and support modest growth expectations.

Aside from our financials holdings, our biggest detractor was EOG Resources, a US shale-focused E&P company, which pulled back along with the broader energy sector. Our energy exposure is slightly below that of the benchmark and is comprised of two holdings; we also have a small position in Weatherford International. We have stringent criteria for business quality, which is particularly important in commodities sectors as these businesses do not control underlying commodities prices, which can be volatile at times. EOG is one of the highest quality operators in the E&P space. EOG has a low-cost production position with a strong reserve base, giving it an advantage versus peers. Further, EOG's management focuses on return on invested capital and cash flow generation, distinguishing it from most of the company's competitors which prioritize growth over profitability. Its commitment to return excess capital to shareholders via regular and special dividends is also highly appealing, particularly in a period of rising interest rates. The company has proven its ability to create economic value for shareholders, even over the past decade that included the toughest energy commodity environment of the last 30+ years. The company's strong balance sheet enabled it to increase production capabilities during the prior downturn.

Our top contributor was Heineken, the second-largest brewer in the world behind Anheuser-Busch InBev. FY2022 organic sales growth was strong across all regions, aided by pricing increases and mix benefits toward premiumization, with premium beer volumes outgrowing the overall beer market. Importantly in the current environment, Heineken has been able to pass through cost inflation due to its strong brand portfolio and its exposure to the premium beer segment. Shares also reacted favorably to the company's €1 billion share buyback from FEMSA, a Mexican multinational beverage company, which earlier in the week had announced it was divesting its 14.8% stake following a strategic review. The buyback was made possible by Heineken's strong balance sheet and sends a strong message that it sees value in the stock at current prices. The

company's financial condition appears solid as its debt burden is reasonable and termed out well, it has strong free cash generation, and it benefits from the alcoholic beverage category's stable demand profile.

Other top performers were Omnicom Group (OMC) and Safran. OMC, a global advertising and marketing services holding company, has delivered solid organic revenue growth. We view OMC as one of the best-run global advertising agencies with a rolodex of global top-tier clients and a best-in-class creative division. 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 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 ~13X earnings.

Safran, a French aerospace company, turned in better-than-expected results as demand for propulsion systems and equipment has been aided by the recovery in air traffic. Safran generates most of its profits from CFM International (CFMI)—a 50/50 joint venture with General Electric to manufacture narrow-body aircraft engines. The narrow-body industry is a duopoly with high barriers to entry and long product cycles. CFMI has a dominant market share in narrow-bodies, an attractive category expected to grow mid-single digits over the next two decades. The engines business is a razor-razorblade model as engines are sold at a loss and significant profits are generated in the aftermarket during "shop visits." An engine's useful lifetime is typically more than 20 years, providing recurring cash flows and long-term visibility. Strong free cash flow generation has allowed it to maintain a strong balance sheet.

Portfolio Activity

Most of our new purchases in Q1 were financials as we took advantage of the fear and uncertainty across the sector. In the health care sector, we purchased Baxter International (BAX), a global medical technology company providing essential products in renal care, medication delivery, advanced surgery, clinical nutrition, pharma and acute therapies. It has a diversified geographic reach and is a consistent producer of free cash flow. The stock trades at its cheapest valuation in years due to pessimism regarding raw material costs, supply chain issues, semiconductor availability and foreign exchange headwinds. We believe the company has turnaround potential as none of these are permanent conditions. Additionally, the company is going through the process of selling several non-core operations, which should raise cash and simplify the business longer term. BAX also meets our criteria for sound financial condition due to its high interest coverage and well-termed out debt on the balance sheet.

With our flexibility to invest across the capital structure, we also purchased B-rated bonds issued by ANGI (formerly Angie's List), a digital home services business, maturing in August 2028. At the time of our purchase, the 3 and 7/8 coupon note was yielding 9.5%. Our job as investors is to understand the credit risk we are taking and weigh the probabilities that the debt is favorably mispriced. That is, assessing whether the yield offered compensates us for the risk being taken. ANGI is the leader in the large online home services category, but growth and margins have been challenged since homeowners have other means to find qualified contractors, whether using Internet search or through word of mouth. At the same time, ANGI is facing growth headwinds, and the business was mismanaged from a cost perspective. Thankfully the controlling shareholder, IAC, which we hold in our mid-cap value portfolio is acting swiftly to repair the cost structure. Despite the industry headwinds and mismanaged costs, ANGI has a proven ability to generate free cash flow. By purchasing the bonds, we were able to get an equity-like return, with a higher position in the capital structure, on a business we know well and which we believe can easily service its debt burden as conditions improve.

Early in Q1, we sold our position in STORE Capital, a triple net lease REIT. The share price already reflected the takeout price, so rather than waiting until February for the acquisition to close, we put the capital to better use. We also exited our positions in alternative asset managers Blackstone and The Carlyle Group due in part to fundraising headwinds in the industry.

Perspective

We have routinely discussed the prolonged era of low interest rates and how it set the stage for the craziness we saw in markets over the past few years. We are starting to see what the unwind of those conditions means for financial markets and the economy. In 2021, Bank of America said interest rates had reached 5,000-year lows! This was not one pocket of mania; it was across the board. With money pumped into the system, risk-taking was ascendant. Where did the excesses land? The poster children were crypto, MEME stocks, SPACs, profit-less growth, etc. Yet, our process touched none of these areas of MEMEntum. Why didn't we? Because we are fiduciaries that subscribe to a tried-and-true fundamentals-based investment philosophy and process and seek to maintain investment discipline. There is a quote by J.P. Morgan, "Nothing so undermines your financial judgement as the sight of your neighbor getting rich." Manias are contagious. If you see others getting rich, even if you do not understand why prices are going up, human behavior and jealousy are such that people will jump in regardless.

Of course, if there can be extreme euphoria on the upside, it must also be true there can be extreme despondence on the downside. Both must exist because of the nature of markets and human emotions which create prices in the short term. This is the basis of value investing. We designed our approach to take advantage of market dislocations—stacking the deck in our favor, leaning into probabilities

and focusing on distinguishing between values and prices. We stack the deck by seeking to find better businesses in sound financial condition and buying them at prices below their intrinsic values. When values and prices diverge, there is an opportunity to double dip. Over your holding period, you not only receive the growth in business value but also the closing of the undervaluation gap as earnings and investor sentiment normalize. We look forward to continuing to seek better businesses selling at attractive values with the goal to generate above-average investment outcomes for our investors.

ARTISAN CANVAS

Timely insights and updates from our investment teams and firm leadership

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This summary represents the views of the portfolio managers as of 31 Mar 2023. 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 Fund's total net assets as of 31 Mar 2023: Bank of America Corp 1.9%, Corebridge Financial Inc 1.3%, Fifth Third Bancorp 1.2%, M&T Bank Corp 1.5%, Safran SA 1.8%, Omnicom Group Inc 2.1%, EOG Resources Inc 2.6%, Comerica Inc 1.0%; The PNC Financial Services Group Inc 1.8%, Heineken Holding NV 3.0%; Baxter International Inc 1.8%, US Bancorp 1.5%, Washington Federal Inc 1.7%, Weatherford International Ltd 0.5%, ANGI Group LLC 1.3%. 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. Portfolio security yields are subject to market conditions and are not guaranteed.

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Free Cash Flow is a measure of financial performance calculated as operating cash flow minus capital expenditures. **Return on Equity (ROE)** is a profitability ratio that measures the amount of net income returned as a percentage of shareholders' equity. **Dividend Yield** is a financial ratio that shows how much a company pays out in dividends each year relative to its share price. **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. **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.

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