Artisan Floating Rate Fund

QUARTERLY
Commentary

Investor Class: ARTUX | Advisor Class: APDUX | Institutional Class: APHUX

As of 30 September 2023

Investment Process

We seek to invest in issuers with high-quality business models that have compelling risk-adjusted return characteristics. Our research process has four primary pillars:

Business Quality

We use a variety of sources to understand an issuer's business model resiliency. We analyze the general health of the industry in which an issuer operates, the issuer's competitive position, the dynamics of industry participants and the decision-making history of the issuer's management.

Financial Strength and Flexibility

We believe that analyzing the history and trend of free cash flow generation is critical to understanding an issuer's financial health. Our financial analysis also considers an issuer's capital structure, refinancing options, financial covenants, amortization schedules and overall financial transparency.

Downside Analysis

We believe that credit instruments by their nature have an asymmetric risk profile. The risk of loss is often greater than the potential for gain, particularly when looking at below investment grade issuers. We seek to manage this risk with what we believe to be conservative financial projections that account for industry position, competitive dynamics and positioning within the capital structure.

Value Identification

We use multiple metrics to determine the value of an investment opportunity. We look for credit improvement potential, relative value within an issuer's capital structure, catalysts for business improvement and potential value stemming from market or industry dislocations.

Team Overview

Our team brings together a group of experienced credit analysts who are dedicated to a single investment philosophy and process. All team members conduct deep fundamental credit research as generalists with sector tendencies to identify issuers with high quality business models that have compelling risk-adjusted return characteristics.

Portfolio Management

Bryan C. Krug, CFA
Portfolio Manager (Lead)

Seth B. Yeager, CFA
Portfolio Manager

Investment Results (%)

As of 30 September 2023	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception
			Average Annual Total Returns				
Investor Class: ARTUX	**4.23**	**10.84**	**12.97**	—	—	—	**4.44**
Advisor Class: APDUX	**4.26**	**10.92**	**13.09**	—	—	—	**4.54**
Institutional Class: APHUX	**4.27**	**10.97**	**13.15**	—	—	—	**4.58**
Credit Suisse Leveraged Loan Index	3.37	9.91	12.47	—	—	—	5.03

Source: Artisan Partners/Credit Suisse. Returns for periods less than one year are not annualized. Class inception: Investor (1 December 2021); Advisor (1 December 2021); Institutional (1 December 2021).

Expense Ratios (% Gross/Net)	ARTUX	APDUX	APHUX
Semi-Annual Report 31 Mar 2023[1,2,3,4]	3.43/1.20	1.63/1.10	1.33/1.05
Prospectus 30 Sep 2022[2,4]	7.22/1.23	1.64/1.13	1.29/1.07

[1]Unaudited, annualized for the six-month period. [2]Net expenses reflect a contractual expense limitation agreement in effect through 31 Jan 2024. [3]Excludes Acquired Fund Fees and Expenses as described in the prospectus. [4]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. The performance information shown does not reflect the deduction of a 2% redemption fee on shares held by an investor for 90 days or less and, if reflected, the fee would reduce the performance quoted.

Performance Discussion

Our portfolio's performance outpaced the Credit Suisse Leveraged Loan Index during Q3, extending its lead on the benchmark YTD. Security selection across sectors was decidedly positive, with material outperformance generated in our exposures to services and software. We have continued to overweight credits within these sectors based on our view of their full-cycle appeal and business quality. Elsewhere, this relative strength was somewhat offset by the portfolio's small out-of-benchmark exposure to secured high yield bonds. This allocation provides total return and liquidity benefits, but it modestly weighed on returns as floating rate securities outperformed fixed-rate bonds during the period. As we look ahead, we believe our focused approach to credit selection will be a clear differentiator and will help us navigate the wide range of outcomes that could unfold over the coming quarters.

Investing Environment

Leveraged loan markets continued to grind higher throughout Q3, supported by a stable backdrop for credit valuations, rising rates leading coupon resets higher and the continuation of investor support, particularly among lower rated and cyclical credit risk. YTD, the asset class has provided its strongest stretch of returns since 2009 as it remains one of the top-performing segments of fixed income markets for the past two years. Gains were primarily due to higher carry, limited net supply and hawkish Fed rhetoric that repriced front-end interest rates materially higher. During the quarter, Fed members reiterated their commitment to proceed cautiously, warning a near-term policy pivot is unlikely. Rates rose across the yield curve, further reflecting a higher-for-longer policy environment.

The bulk of spread tightening was skewed toward lower rated loans, with CCCs the leader among credit quality groupings while second-lien loans outpaced their first-lien counterparts. Average price for the index rose to 94.8, its highest level since April 2022. Generally, investor demand has kept a recent rise in issuance from impacting pricing, as year-to-date demand from retail investors, CLOs and coupon reinvestment has outweighed year-to-date new issuance. One additional source of higher risk credit creation, LBO activity, has been muted with many transactions being funded in the private credit market.

We believe there is a compelling case to be made today that leveraged credit markets have the potential to play their most important role within diversified portfolios since the 2008 global financial crisis. The post-GFC market environment brought with it a low-return period for credit investors. For many years, prospective returns on credit were generally not competitive with those delivered by equities, real estate and alternative strategies. Now, higher prospective yields are here, which have the potential to make a meaningful contribution to investor portfolios of all kinds. To illustrate this point, in early 2022, high yield bonds yielded in the range of 4%; today, the overall high yield market yields closer to 9%, while loans are 10%. This higher expected return has encouraged institutional investors, such as pension plans and endowments, to reconsider the leveraged credit asset class as an increasing portion of their strategic allocation, now that the asset class can more reliably contribute to reaching their long-term required returns or actuarial assumptions.

Senior loan returns today exceed, in many cases, required returns for investors without the need to take extended duration, liquidity or equity drawdown risk. In summary, equity-like returns are achievable from credit, during a time when the equity risk premium is near its historic lows. Further, the historical diversification effect of leveraged loans also makes them an attractive, evergreen addition to investor portfolios.

The par-weighted default rate for loans reached 2.7% at the end of September. While elevated from a low base at year end 2022, default rates remain benign by historical standards and have outperformed consensus fears coming into the year. Record refinancing during the pandemic has pushed out any near-term maturity wall that would increase the odds of liquidity-driven default activity. Roughly 6% of the par amount outstanding within the index rated B or lower is scheduled to mature over the next two years. At the same time, leverage is at pre-pandemic levels, and interest coverage is near its post-crisis highs. Pockets of earnings weakness are evident, but most of the year's default volumes have been credit specific, driven by higher input costs and unsustainable capital structures. Overall, as the full effect of the Federal Reserve's tightening campaign flows through to corporate fundamentals, we expect default activity to continue to normalize from current levels.

Loan valuations for the index finished the quarter with discount margins greater than 550bps and yields exceeding 10.0%. Even with fears of an impending recession, valuations still sit inside prior periods of economic contraction. Nonetheless, growing pockets of stress/distress were evident across several capital structures and economically vulnerable industries. With tighter credit conditions, borrowing has become constrained for many lower rated issuers with large concessions required for borrowers needing to access capital markets. For our approach that capitalizes on dislocations, we view these situations as an increasingly attractive area for capital deployment.

Portfolio Positioning

We took steps during the quarter to position the portfolio for a backdrop of continued volatility and economic uncertainty by incrementally upgrading exposures across sectors and ratings. The strong bid for floating rate securities early in the quarter allowed us to pare some of the portfolio's lower rated and second-lien exposure into technical strength. With volatility and dispersion increasing later in the quarter, we directed these proceeds into less cyclical, shorter maturity loans that were trading at attractive dollar discounts.

We continue to believe that careful and deliberate portfolio construction with a higher level of concentration—helping to avoid defaults and permanent capital impairment—will ultimately benefit investors over time. The average loan portfolio in the market holds hundreds of line items, putting managers at risk for credit events that bubble up if there is only a surface level of underwriting and often providing an underwhelming level of long-term performance.

As prices have risen and to help insulate the portfolio against a decline in rates, we continue to reduce maturity duration, finding more attractive investment opportunities at the front end, where we are able to invest in capital structures that we believe will be refinanced over the next 2–4 years at yields that remain compelling.

Defaults over the past couple of years within the leverage loan universe have been heavily concentrated in two sectors, health care and media/telecom. As we discussed last quarter, we disagree with the consensus market perception that health care is a defensive sector, resulting in the sector being a consistent material underweight for our portfolio.

One area of the market we view as particularly attractive is underfollowed loans, specifically those at a size of $1 billion and below. For reference, the average par issue size in the high yield market is approximately $700 million, so this is an area the team feels comfortable allocating to. We have a relative overweight on issues less than $1 billion and a significant underweight relative to peers on issues greater than $2 billion, where we find less compelling investment opportunities today.

The portfolio remains substantially first-lien, floating rate loans in the single-B ratings category and exclusively US focused today. As of quarter end, we held an above-average level of cash, which was due in part to a late September refinancing of a portfolio position. While we have near-term plans for a portion of this cash, we see maintaining an elevated level of dry powder as beneficial in this environment.

Across sectors, the portfolio became incrementally more defensive. We continue to focus the portfolio on industries that generate strong free cash flow and have a unique ability to weather future volatility, in our view. Given inflationary pressures and higher financing costs, we've incrementally moved the portfolio away from consumer-related areas and have concentrated a third of the portfolio in software, services and insurance sectors—areas that tend to have high business quality and show resiliency throughout an economic cycle. We believe our insurance brokerage holdings, in particular, are well positioned to navigate the crosscurrents of the current environment. Because third-party insurance brokers earn a percentage of the premiums collected on behalf of insurance carriers, the non-discretionary nature of many insurance products—often required by law for both consumers and businesses—results in more than 90% recurring revenues and limited voluntary customer churn. More notably, the impact of surging inflation has created a hard-pricing environment of higher insured asset prices, rising claims costs and, in turn, rising premiums that directly translate into higher brokerage commission revenues. As a result, insurance brokers operate with a high-margin, high free cash flow business model that is relatively defensive despite a higher leverage profile. Currently 10% of the portfolio is allocated to insurance brokers that offer high single-digit yields—attractive risk/reward for full-cycle credit risk.

The analysis is similar for our software holdings as well. Nearly 20% of the portfolio is allocated to software companies that provide mission-critical products and services through subscription-based revenue models. Like insurance brokers, enterprise software providers benefit from high retention rates (90%–95%), high gross margins and attractive profitability at scale. While software companies typically have incrementally less pricing power during recessionary environments, customer attrition is typically reduced due to limited competition across niche verticals.

One addition to the top 10 holdings is Fogo de Chao, a well-known and unique Brazilian family-style dining brand with locations across the US. The dining model is unique in its competitor set and benefits from having best-in-class unit economics within the restaurant category. Based on its sourcing of meat, pricing power and labor characteristics, Fogo has much higher margins, attractive returns on capital and runway for unit growth. Earlier this year, we had invested in their existing LIBOR+425bps loan at a discount to par with the expectation of a refinance either through the regular way or an IPO. Although the contemplated IPO was ultimately withdrawn, the business was sold to another private equity sponsor with our loan refinanced. As part of the transaction, the new sponsor recapitalized the business with additional cash equity, the loan was upgraded by Moody's, and we re-underwrote the business—re-investing in the new loan at a higher spread and at an attractive discount to par with an anticipated yield of 10.5%.

Perspective

Credit markets have rallied this year and remain resilient, even amid increased volatility from episodic events such as the banking crisis in Q1, a continually hawkish Federal Reserve and multi-decade highs in interest rates. We remain ever vigilant, continuing to focus our portfolio on quality businesses with strong credit fundamentals.

This vigilance has a direct impact not only on what credits we invest in but also their percentage weightings, which are a function of conviction. Rising debt costs and its impact on weaker businesses are top of mind, but business quality comes first for the team. We remain comfortable with the fundamental standing of the issuers we've selected, while closely monitoring any deterioration. Corporate profitability has been very strong overall, and this bodes well for credit fundamentals.

Underneath the surface, dispersion remains. Against a backdrop of slowing growth and normalizing default rates, we continue to believe elevated single-security dispersion creates a unique environment to generate alpha through credit selection. As the potential for volatility increases in an environment with more restrictive lending standards and higher borrowing costs, we will use growing dispersion as an opportunity to strategically invest in credits with attractive risk-reward profiles.

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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. Fixed income securities carry interest rate risk and credit risk for both the issuer and counterparty and investors may lose principal value. In general, when interest rates rise, fixed income values fall. High income securities (junk bonds) are speculative, experience greater price volatility and have a higher degree of credit and liquidity risk than bonds with a higher credit rating. The portfolio typically invests a significant portion of its assets in lower-rated high income securities (e.g., CCC). Loans carry risks including insolvency of the borrower, lending bank or other intermediary. Loans may be secured, unsecured, or not fully collateralized, trade infrequently, experience delayed settlement, and be subject to resale restrictions. Private placement and restricted securities may not be easily sold due to resale restrictions and are more difficult to value. Use of derivatives may create investment leverage and increase the likelihood of volatility and risk of loss in excess of the amount invested. International investments involve special risks, including currency fluctuation, lower liquidity, different accounting methods and economic and political systems, and higher transaction costs. These risks typically are greater in emerging and less developed markets, including frontier markets.

Credit Suisse (CS) Leveraged Loan Index is an unmanaged market value-weighted index designed to mirror the investable universe of the US dollar-denominated leveraged loan market. New issues are added to the index on their effective date if they qualify according to the following criteria: loan facilities must be rated "BB" or lower; only fully funded term loan facilities are included; and issuers must be domiciled in developed countries. 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 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. These holdings comprise the following percentages of the Fund's total net assets (including all classes of shares) as of 30 Sep 2023: Fogo de Chao 2.9%. 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. Portfolio statistics include accrued interest unless otherwise stated and may vary from the official books and records of the Fund. This material does not constitute investment advice.

Attribution is used to evaluate the investment management decisions which affected the portfolio's performance when compared to a benchmark index. Contribution to return is calculated by Bloomberg by multiplying a security's daily total return multiplied by the daily weight compounded over the referenced timeframe and does not take into account expenses of the portfolio. Attribution is not exact, but should be considered an approximation of the relative contribution of each of the factors considered.

This material is provided for informational purposes without regard to your particular investment needs and shall not be construed as investment or tax advice on which you may rely for your investment decisions. Investors should consult their financial and tax adviser before making investments in order to determine the appropriateness of any investment product discussed herein.

Credit Quality ratings are determined by Artisan Partners based on ratings from S&P and/or Moody's, which typically range from AAA (highest) to D (lowest). For securities rated by both S&P and Moody's, the higher of the two ratings was used, and those not rated by either agency have been categorized as Unrated/Not Rated. Ratings are applicable to the underlying portfolio securities, but not the portfolio itself, and are subject to change. **Non-Investment Grade** refers to fixed income securities with lower credit quality. **Leveraged Loan Default Rate** measures the percentage of leveraged loans that failed to make scheduled interest or principal payments in the prior 12 months. **Carry** represents the return for holding an asset and generally refers to the interest income obtained from fixed income securities. **Credit spread** is the difference between the quoted rates of return on two different investments, usually of different credit qualities but similar maturities. **Free Cash Flow** is a measure of financial performance calculated as operating cash flow minus capital expenditures. **Leverage** is the use of various financial instruments or borrowed capital; the amount of debt used to finance a firm's assets. **Discount margin (DM)** is the average expected return of a floating-rate security that's earned in addition to the index underlying, or reference rate of, the security. **Return on Capital (ROC)** is a measure of how effectively a company uses the money (borrowed or owned) invested in its operations. **Par** represents the level a security trades at when its yield equals its coupon.

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