Artisan Floating Rate Fund

QUARTERLY
Commentary

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

As of 30 June 2022

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 June 2022	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception
			Average Annual Total Returns				
Investor Class: ARTUX	**-4.28**	**-5.12**	—	—	—	—	**-5.41**
Advisor Class: APDUX	**-4.25**	**-5.07**	—	—	—	—	**-5.36**
Institutional Class: APHUX	**-4.24**	**-5.07**	—	—	—	—	**-5.35**
Credit Suisse Leveraged Loan Index	-4.35	-4.45	—	—	—	—	-3.87

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 2022[1,2,3]	14.76/1.20	2.56/1.10	2.04/1.05
Prospectus 15 Nov 2021[2,3,4]	1.35/1.21	1.19/1.11	1.09/1.06

[1]Unaudited, for the period from commencement of operations 1 Dec 2021 through 31 Mar 2022. [2]Net expenses reflect a contractual expense limitation agreement in effect through 31 Jan 2023. [3]See prospectus for further details. [4]Includes estimated expenses for the current fiscal year.

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. The Fund's returns may vary greatly over shorter periods due to the limited operating period since inception. 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 outpaced the Credit Suisse Leveraged Loan Index during Q2. The portfolio's sector mix was the largest contributor to outperformance, though credit selection was decidedly positive, as well. Across sectors, our focus on full-cycle business models results in a relative overweight to less cyclical software, services and insurance holdings. This exposure held up better throughout the quarter's volatility as economically sensitive credit risk underperformed on global growth concerns. Elsewhere, this relative strength was somewhat offset by the portfolio's small out-of-benchmark exposure to high yield bonds. This allocation provides total return and liquidity benefits, but 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

Credit markets concluded their worst first half year performance on record in Q2, as building concerns of a slowing economy led to widespread decompression. Credit assets were notably weaker across the board, but the rationale was distinctly different than in Q1. Through the first few months of the year, the drawdown across credit was primarily the function of a selloff in interest rates. Repricing of credit risk was the main contributor to losses in Q2. The macro backdrop of tightening financial conditions, sequentially slowing growth and 40-year highs in inflation led to a quick erosion of risk appetites as investors began to price in expectations for slowdown. Widespread risk aversion translated into materially wider credit valuations with spreads reaching their widest levels since the pandemic. For example, the spread between BB and single-B rated loans widened through their long-term average to 198bps from 134bps at the end of Q1.

Leveraged loans, which have been largely immune from the year's volatility, succumbed to risk off price action but held up materially better than both investment grade and high yield bonds during the quarter. Still, the 4.4% decline in loans in Q2 (as measured by the Credit Suisse Leveraged Loan Index) marked the worst quarter of performance since Q1 2020. The weakening economic backdrop accelerated outflows across the loan space as investors' fixation with higher interest rates and surging inflation earlier in the year gave way to broader concerns about the economy later in the quarter. Despite weakness, loans remain one of the best performing segments across both equity and fixed income asset classes.

Loan valuations for the index finished the quarter with spreads through 600bps and yields exceeding 9.0%. 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.

Defaults were only modestly higher from the cyclically low levels at the start of the year. The quarter saw six issuers default on $6 billion in loans, pushing the 12-month loan default rate 30bps higher to 0.7%. Even with growing distress, the number of loans trading below $80 is largely in line with where it was before the pandemic. Defaults are expected to rise from near record lows, but borrowers are in a much better position to weather a downturn than past cycles. The last two years of record refinancing have pushed out any near-term maturity wall that would increase the odds of liquidity-driven default activity. Only 6.5% of the par amount outstanding within the index either unrated or 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 at its post-crisis highs. This suggests we're unlikely to see a widespread default wave like previous downturns.

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 widespread volatility and resulting dispersion later in the quarter, we directed these proceeds into less cyclical, shorter-maturity loans that were trading at attractive dollar discounts. We also incrementally added to the portfolio's non-loan exposure through new investments in a handful of first lien, short-duration high yield bond investments. While yields between bonds and loans are largely the same, the average high yield bond now trades with dollar prices in the low 80s, compared to the average loans in low 90s. This discount translates into attractive convexity and an opportunity to capture returns in excess of a bond's coupon. Together, these moves pushed the portfolio's BB-rated exposure higher by 3.5 percentage points to 13.3% while the portfolio's maturity profile shortened more than a half a year to 4.3 years.

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 +90% recurring revenues and limited voluntary customer churn. More notable, 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 13% 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, too. 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.

An example of one of the portfolio's software holdings that characterizes our approach to the sector is our position in the leveraged loan of SS&C Technologies—a new name in the portfolio's top 10 largest issuers. SS&C is a leading software provider, specializing in fund administration and accounting for the investment management industry. The company benefits from its large scale, competitive positioning and revenue predictability. Nearly 90% of its revenues come from recurring, transaction-based services that are provided to its large and diverse client base. From a credit standpoint, we view SS&C as a higher quality holding and part of our intra-quarter rotation. We believe this more defensive position is likely to be a source of funds as better opportunities for yield and total return emerge.

Perspective

As we move into the second half of the year, it's undeniable the credit landscape is dramatically different from the one just six months ago. Soaring inflation and tightening financial conditions now characterize an environment where investors' recession outlook has moved from bear case to base case. We can confidently say credit fundamentals are in a much stronger place today to weather a downturn than past cycles. Fortunately for investors, a worsening macro picture has been met with a much better set of valuations. Dispersion is widespread and pricing between industries and capital structures has become increasingly differentiated. In our view, this has created the most attractive opportunity set for credit selection we've seen since the depths of the pandemic. Of course, we acknowledge credit markets remain vulnerable to shifts in sentiment, and it's possible spreads could continue to widen from here. But for investors with a longer timeframe, current valuations have historically led to compelling forward returns. With this in mind, we've positioned the portfolio to navigate the wide range of outcomes that could unfold over the coming quarters and expect the continued uptick in dispersion to create attractive opportunities for credit selection.

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. 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. The use of derivatives in a portfolio 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 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 Jun 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. These holdings comprise the following percentages of the Fund's total net assets (including all classes of shares) as of 30 Jun 2022: SS&C Technologies Inc 3.7%. Securities named in the Commentary, but not listed here are not held in the Fund as of the date of this report. Portfolio holdings are subject to change without notice and are not intended as recommendations of individual securities. All information in this report, unless otherwise indicated, includes all classes of shares (except performance and expense ratio information) and is as of the date shown in the upper right hand corner. 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 typically range from AAA (highest) to D (lowest) and are subject to change. The ratings apply to underlying holdings of the Portfolio and not the Portfolio itself. **Free Cash Flow** is a measure of financial performance calculated as operating cash flow minus capital expenditures. **Non-Investment Grade** refers to fixed income securities with lower credit quality. **Investment Grade** indicates above-average credit quality and lower default risk and is defined as a rating of BBB or higher by Standard and Poor's and Fitch rating services and Baa or higher by Moody's ratings service. **Par-weighted Default Rate** represents the total dollar volume of defaulted securities compared to the total face amount of securities outstanding that could have defaulted. **Credit spread** is the difference between the quoted rates of return on two different investments, usually of different credit qualities but similar maturities. **Leverage** is the use of various financial instruments or borrowed capital; the amount of debt used to finance a firm's assets. **Profit margin** is a measure of profitability and is calculated by dividing the profit as a percentage of the revenue.

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