Artisan Floating Rate Fund

QUARTERLY
Commentary

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

As of 31 March 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 (%)

			Average Annual Total Returns				
As of 31 March 2023	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception
Investor Class: ARTUX	**3.27**	**3.27**	**2.08**	—	—	—	**0.66**
Advisor Class: APDUX	**3.30**	**3.30**	**2.19**	—	—	—	**0.76**
Institutional Class: APHUX	**3.31**	**3.31**	**2.24**	—	—	—	**0.80**
Credit Suisse Leveraged Loan Index	3.11	3.11	2.12	—	—	—	1.98

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
Annual Report 30 Sep 2022[1,2,3,4]	7.19/1.20	1.61/1.10	1.27/1.05
Prospectus 30 Sep 2022[2,4]	7.22/1.23	1.64/1.13	1.29/1.07

[1]For the period from commencement of operations 1 Dec 2021 through 30 Sep 2022. [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 outpaced the Credit Suisse Leveraged Loan Index in Q1. Strong security selection across our portfolio of floating rate securities helped drive outperformance, led by idiosyncratic strength from holdings in the telecom and services sectors. Additionally, our underweight to price-constrained BB-rated loans in favor of more credit-sensitive risk was a significant driver of relative returns with the quarter's broader reflation. These gains were partially offset by select weakness among the portfolio's non-bank financial exposure and modest cash allocation. As we move forward, our focused approach to bottom-up credit selection will be a clear differentiator as the economic environment becomes increasingly uncertain. The market continues to struggle to appropriately price credit risk, creating widespread opportunities for outperformance through security selection.

Investing Environment

Credit markets shrugged off growing instability across the US regional and European banking sectors to post strong absolute and relative gains in Q1. Leveraged credit markets started the year on solid footing, helped by better-than-expected macro data that helped reopen dormant primary markets and ignited a reflation trade that disproportionately benefited lower rated and floating rate structures. However, the opening-year rally was eventually derailed in March as concerns about banking-sector stress and its implications for growth dominated price action. Leveraged loan valuation moved aggressively wider in mid-March as idiosyncratic events (Silicon Valley Bank and Signature Bank) morphed into systemic concerns (Credit Suisse). Swift government and central bank action helped alleviate fears of broader banking contagion, leading to a rally that pushed risk assets dramatically higher into the quarter's final week. Leveraged loans finished the quarter with a coupon-like gain of 3.1% (as measured by the Credit Suisse Leveraged Loan Index).

Despite ongoing volatility, leveraged loan valuations (based on three-year discount margins) remained largely rangebound, finishing the quarter 45bps tighter at 609bps—a level we continue to find compelling at roughly one standard deviation wide of the post-GFC average spread of 529bps. While credit risk cheapened throughout March's volatility, lower rated risk outperformed in Q1 with better-than-expected macro data early in the quarter. In a notable reversal from last year's up-in-quality theme, B-rated risk led the market higher with gains of 3.8%, followed by CCCs (2.7%) and BBs (2.3%), which are largely constrained near par today.

Despite signs of life early in January, primary market activity remained quiet, with less than $48 billion priced in the first three months of 2023—the slowest start since 2016. More than 50% of the quarter's supply was issued in February with loan valuations near 550bps, but capital market activity eventually collapsed in March amid elevated rate and equity volatility. The US leveraged finance market was not an island in this regard, as issuance across the credit spectrum and across the globe remained subdued.

Default activity modestly increased in Q1, with 12 companies defaulting on $18 billion in bonds and loans. The leveraged loan default rate finished the period at 1.8% and is beginning to normalize after a period of record-low defaults with accommodative financial conditions. As macro concerns gained momentum, distress levels approached their summer highs of last year. Nonetheless, aggregate credit fundamentals show resiliency, with the net leverage remaining near multi-year lows. Pockets of earnings weakness are evident, but unsurprisingly most of the deterioration has been concentrated in rate-sensitive and cyclical sectors. Overall, we expect defaults to trend higher throughout the year, but peak defaults will likely only approach long-term averages of 3%-4%.

Portfolio Positioning

A key differentiator of our approach is the flexibility to opportunistically rotate our exposures to areas of the market that provide the most attractive relative value. During the quarter, we used the risk-on rally to trim price-constrained BB-rated investments into strength for better yield and total return opportunities among single-B loans. As a result, our BB exposure declined 8.7% to a weight of 6.6% of the portfolio, increasing our B-rated exposure to 80.0%. With this shift, we focused on shorter dated credits that trade at a substantial discount and offer positive convexity. We expressed this view by paring our 7-10 year exposure five percentage points and increasing the 3-5 year allocation proportionally. At the sector level, the portfolio remains concentrated in less cyclical areas of the market that have high recurring revenue, high profit margins and low capital intensity. This is reflected in an overweight to quality enterprise software, insurance brokerage and business-service assets and underweights to more vulnerable sectors, like gaming, chemicals and health care.

The health care sector remains an area of differentiation relative to many of our peers. The sector makes up roughly 13% of the Credit Suisse Leveraged Loan Index and has historically been viewed as defensive and often over-indexed by peers. While generally less sensitive to economic cycles, health care is a broad descriptor encompassing many nuanced and unique subsectors where investors must fully understand regulatory, reimbursement, staffing and business risk—among many other factors. We often find levered health care companies rely heavily on small patient populations and a narrow service specialty to derive a disproportionate amount of earnings—analysis that can only be teased out through deep fundamental research rather than headline reported numbers. As a result, we believe credit investors are often inadequately compensated for beneath-the-surface risks inherent across this space. This is particularly true today, given the number of companies that have realized outsized earnings on the back of COVID—otherwise masking actual underlying fundamental risks. The sector's realities are becoming clear to the broader market. Despite being only 13% of the index, the sector represents nearly a third of all distressed assets across the loan landscape and is an area we're monitoring closely for opportunities as sentiment begins to reflect the sector's eroding fundamentals.

As mentioned, an area of focus for the portfolio has been shorter duration loans in good businesses where we anticipate a near-term refinance. One example is SunSource—a recent addition that falls just outside our top 10 holdings. SunSource is a national distributor of pumps, motors, power steering and other replacement parts for industrial applications, and it also has the value add of engineers and other technical support for customers. It is privately owned with low leverage, strong free cash flow characteristics and a supportive private equity sponsor with a significant cash equity investment. The first-lien loan matures in December 2024 and is a principal amount of less than $1 billion, putting it at a size that falls below where many peers will screen for ideas. We expect the loan to be refinanced one year to maturity and added our exposure this quarter at a price of approximately 97. With a coupon of Libor plus 425bps and 3 points of discount to par, the return to our anticipated repayment date is approximately 12.5%—an attractive risk-adjusted return for a business with strong credit fundamentals and downside protection as first-lien creditors.

Another focus area is positioning the portfolio for positive convexity through discounted loans that offer attractive yield and total return potential. Gridiron Fiber Corp, which does business as Lumos Networks, is another investment on a path toward credit improvement that trades at a steep discount to par. The company provides high-speed fiber to more than 200,000 addresses across North Carolina and Virginia at competitive pricing. The secular demand for data and bandwidth has led to high recurring revenues and strong and stable operating margins. Lumos is undergoing a substantial fiber investment cycle funded by equity investments from its sponsor that will expand fiber access to the major metro areas across its footprint, de-leveraging and improving our credit position. Our position in its first-lien loan trades in the low 90s, resulting in double-digit yields and attractive convexity.

Perspective

As we move forward, leveraged credit markets continue to provide compelling value and carry for investors. While economic uncertainty remains, resilient credit fundamentals provide an underappreciated level of support to the market that should keep spreads contained and drawdowns limited. Still, investor sentiment continues to drive price action in the near term, and credit markets remain vulnerable to prevailing macro headlines. With increased volatility comes rising dislocation and dispersion, placing emphasis on credit selection, which plays into our differentiated floating rate strategy. Nevertheless, the loan landscape continues to offer attractive pockets of value from credits that trade disconnected from underlying fundamentals. Additionally, the impact of March bank failures has been most acute among high-grade market areas, but the aftershocks are likely to materialize through tighter financial conditions that will constrain access to capital and lead to increased volatility for some leveraged borrowers. This environment plays into the strength of our approach by allowing us to lean into periods when dislocation is most severe.

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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 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. These holdings comprise the following percentages of the Fund's total net assets (including all classes of shares) as of 31 Mar 2023: STS Operating Inc 2.6%; GridIron Fiber Corp 4.4%. 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.

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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. **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. **Leveraged Loan Default Rate** measures the percentage of leveraged loans that failed to make scheduled interest or principal payments in the prior 12 months. **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. **Profit margin** is a measure of profitability and is calculated by dividing the profit as a percentage of the revenue. **London Interbank Offered Rate (LIBOR)** is a benchmark interest rate at which major global banks lend to one another in the international interbank market for short-term loans.

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