Artisan High Income Strategy

QUARTERLY
Commentary

As of 30 September 2020

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

Investment Results (% USD)

As of 30 September 2020	QTD	YTD	Average Annual Total Returns 1 Yr	3 Yr	5 Yr	10 Yr	Inception[1]
Composite — Gross	**5.90**	**2.81**	**6.14**	**5.88**	**8.23**	**—**	**7.10**
Composite — Net	**5.72**	**2.28**	**5.41**	**5.15**	**7.48**	**—**	**6.35**
ICE BofA US High Yield Master II Index	4.71	-0.30	2.30	3.83	6.60	—	4.55

Annual Returns (% USD) 12 months ended 30 September

	2016	2017	2018	2019	2020
Composite — Gross	**12.63**	**11.12**	**5.69**	**5.83**	**6.14**

Source: Artisan Partners/ICE BofA. Returns for periods less than one year are not annualized. [1]Composite inception: 1 April 2014.

Past performance does not guarantee and is not a reliable indicator of future results. Current performance may be lower or higher than the performance shown. Unlike the Index, the High Income Composite may hold loans and other security types. At times, this causes material differences in relative performance. Composite performance has been presented in both gross and net of investment management fees.

Investment Risks: Investments will rise and fall with market fluctuations and investor capital is at risk. Investors investing in strategies denominated in non-local currency should be aware of the risk of currency exchange fluctuations that may cause a loss of principal. These risks, among others, are further described on the last page, which should be read in conjunction with this material.

Performance Discussion

Our portfolio solidly outpaced the ICE BofA US High Yield Index in Q3 to extend our relative outperformance for the year. Consistent with our history, strong credit selection across our portfolio of bonds and loans is the primary driver of outperformance. A key differentiator of our strategy has been the ability to allocate opportunistically across the risk spectrum as the credit cycle evolves. Since the depths of the current crisis, we've used market volatility to expand our opportunity set and to take advantage of dislocations in businesses we expect will face temporary COVID-related hardships. These purchases are among the portfolio's top contributors in Q3 and YTD, with notable gains from idiosyncratic investments in travel, lodging and energy. Additionally, the portfolio's CCC-rated exposure benefited from the broad reflation of lower-rated credit risk during the period. Year to date, our CCC-rated holdings are outpacing the broader index by 7.7 percentage points and the CCC index by 15.8 percentage points, with much of this outperformance accumulated during the first six months of the year. Despite elevated volatility and broad risk aversion to lower-rated credit, the resiliency of our credit-sensitive holdings in 2020 highlights our unique ability to assess credit risk independent of ratings agencies.

Investing Environment

The recovery in credit markets continued in Q3 as new highs in US equities and help from the Fed's liquidity backstop supported the incremental grind tighter for credit spreads. High yield bonds (as measured by the ICE BofA US High Yield Index) returned 4.7% to narrow the YTD loss to 0.3%. Wide open primary markets and steady inflows into the asset class led to broad-based strength across all areas of credit, particularly in COVID-disrupted sectors. Leveraged loans also traded higher alongside a rally in risk markets but trailed high yield bonds with returns of 4.1% (as measured by the JPMorgan Leveraged Loan Index). Technicals for leveraged loans improved during the quarter as slowing outflows and higher CLO origination were met with more balanced valuations relative to high yield bonds. Year to date, loan returns (-0.6%) modestly trail high yield bonds (-0.3%).

Corporations continued tapping primary markets at an unprecedented clip in Q3, adding more debt to already elevated leverage levels. Q3 saw a near-record quarter for new issuance with $131bn in debt syndicated during the period. Access to primary markets opened for even the most COVID-impacted and fundamentally disrupted sectors of the high yield market, with CCCs and select distressed issuers participating in the record new funding. Through just nine months, the high yield supply total is just $18bn shy of the full-year record of $368bn in 2012.

High yield credit spreads tightened just over 100bps to finish the period at 545bps—broadly in line with 20-year averages. While the outperformance of higher-rated credits has been a notable theme throughout the recovery, there has been a clear rotation toward higher-yielding, lower-rated segments since early August. Limited upside among BBs along with the improvement in the cyclical outlook helped reverse the trend of CCC underperformance that has persisted throughout the recovery. CCC-rated bonds led the quarter with gains of 7.7%, followed by Bs (4.6%) and BBs (4.2%). CCCs trail BBs by 11 percentage points YTD, but investors' newfound willingness to seek higher-yield opportunities and finance lower-rated issuance eliminates the last remaining hurdle constraining CCC returns.

Default activity in Q3 slowed from the first half of the year's torrid pace. A total of 26 companies defaulted or engaged in distressed exchanges on $19.4bn in bonds and loans. The par-weighed default rate ticked lower to 5.8% but is still 3.5 percentage points higher than levels to start the year. Importantly, the flurry of new issuance has helped mend signs of market distress, lowering the expectations for future defaults. The percentage of distressed structures fell to 11% and is below the long-term median of 14%. Close to 30% of the year's defaults have been concentrated in energy. When energy is excluded, the high yield default rate is 4.2%.

Portfolio Positioning

The biggest changes to positioning occurred at the sector level. Refinancing activity caused our insurance exposure to fall 5.2 percentage points to 11.4% of the portfolio. We directed proceeds toward leisure and retail sectors, in COVID-disrupted companies that have sufficient access to capital and enough flexibility to make it to the other side of this crisis intact. Strong appreciation and additional investments in existing positions pushed our leisure exposure to 15%—the portfolio's largest sector weight. Elsewhere, our allocation to leveraged loans decreased 4.3 percentage points to 21.4%. The change has little to do with our views on relative value—rather, it was largely the result of M&A activity with one of the portfolio's larger holdings. Our credit profile moved modestly up the quality spectrum, with our CCC and B exposure each decreasing 4 percentage points, while our BB and BBB exposure increased 5.9 and 1.4 percentage points, respectively. In aggregate, higher-rated valuations appear increasingly constrained at current levels, but the modest improvement in credit quality for the portfolio can be attributed to new idiosyncratic investments in names that trade at discounts to par and offer compelling total return potential.

Our portfolio remains focused on our highest conviction names, with 31.4% of the portfolio in the top 10 holdings. New to the top 10 were VistaJet Ltd, Comstock Resources and Nordstrom.

We added to our existing position in the senior unsecured debt of private jet owner and operator VistaJet Ltd. The company provides outsourced aviation services through a network of leased and owned aircraft in the US and Europe, offering an asset-light alternative to private jet ownership for corporations and high net worth individuals. VistaJet operates using a fixed-price contract and an on-demand model, resulting in predictable contracted revenue that reduces cyclicality. While commercial air travel faces an uncertain recovery following the outbreak of COVID-19, private aviation has largely avoided the worst of the crisis afflicting large airlines. VistaJet's flight hours have recovered substantially from April's trough, while its membership sales are dramatically higher than pre-COVID averages.

Going forward, we expect the business to see a material increase in demand as routes between less-traveled cities are rationalized by major airlines and as consumers seek safer travel alternatives. Our senior unsecured position offers low-teens yields and is largely covered by the equity in VistaJet's fleet of aircraft.

We also added to our existing exposure in the unsecured debt of natural gas producer Comstock Resources. The debt has been the portfolio's highest returning investment this year after we initiated our position at distressed prices in late March. Since then, the company's credits have rallied back toward par with the recovery in risk sentiment and more favorable macroeconomic backdrop. Going forward, Comstock Resources is best positioned to be among the key beneficiaries of what we believe will be a long-term secular recovery in natural gas prices. The company is among the lowest cost natural gas producers due to its basin concentration and proximity to Henry Hub that positions it for favorable marketing and transport dynamics. Additionally, Comstock benefits from a strong private equity sponsor involving the Jerry Jones family and a management team that has prioritized free cash flow generation over production growth. This important combination supports Comstock's ability to delever in the near term. Further supporting its credit profile, the company made moves to improve its liquidity position following a bond and equity offering in Q2 that was used to repay credit line borrowings and retire a preferred stock. These moves should result in notable interest-rate savings and better position it should we see a continued low natural gas price environment. Despite YTD gains, we believe the bonds continue to trade cheap relative to other high-quality peers, providing a B- return profile despite BB-rated financial metrics.

Finally, we initiated a new position in the unsecured debt of upscale department store and recent fallen angel Nordstrom. While the company's premium mall footprint and focus on upscale apparel make it more vulnerable to COVID disruption, more than one-third of its sales comes from its off-price channel—Nordstrom Rack—which tends to fare better during periods of weaker consumer spending. Nordstrom also generates significant digital sales, with e-commerce penetration in the low 30% range. Importantly, the company has made several important moves to weather its store shutdown and provide for enough balance sheet flexibility for the next year of operations. These include the suspension of its common stock dividend, the postponement of its share buyback program and the implementation of widespread cost cuts. We've chosen to express our views on Nordstrom across the maturity spectrum—all of which provide attractive convexity and total return potential.

Among issuers falling out of the top 10 were UK insurance broker Ardonagh, insurance software solutions provider Vertafore and snack food manufacturer Shearer's Foods. Our long-held position in the secured debt of Ardonagh was successfully refinanced. While we will continue to hold a small position in Ardonagh's unsecured debt, the refinancing marks the conclusion of a successful multi-year investment that was initiated at stressed prices after legacy technology issues and ill-timed acquisitions deferred a turnaround in the company's operating earnings. Since then, the company has positioned itself to recognize long-expected run-rate savings and is on a path toward profitability.

With Vertafore, we exited our long-term position in the first and second lien loan after its sponsor sold the company to software conglomerate Roper Technologies. Our position in the first and second lien loan of Shearer's Food was also refinanced during the period, causing it to fall out of the top ten.

Perspective

While credit markets have recovered almost all their coronavirus-induced losses, we recognize the path forward remains uncertain. The conclusion to the COVID-19 story has yet to be written, and the road to recovery is likely to face significant hurdles as election-related noise and ongoing virus uncertainty create additional catalysts for further volatility. Asset prices continue to trade disconnected from fundamentals, creating an environment of increased asymmetry that underscores the importance of having a well-refined process supported by disciplined underwriting and deep credit work. Ultimately, we believe the idiosyncratic and focused nature of our portfolio position it well for the current environment. Our ability to exploit dislocations through a benchmark-agnostic approach will be particularly useful as the outlook for risk assets remains uncertain. As always, we remain committed to our strategy of searching for opportunities with compelling risk-adjusted returns and believe our high-conviction process will be rewarded over a long investment horizon.

For more information: Visit www.artisanpartners.com

Investment Risks: 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. These risks, among others, are further described in Artisan Partners Form ADV, which is available upon request.

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Securities of the same issuer are aggregated to determine a holding's weight in the portfolio. Securities referenced may not represent all of the securities in the portfolio. The following holdings comprise the top 25 largest holdings as a percentage of the portfolios's total net assets as of 30 Sep 2020: General Electric Co 5.9%,Carnival Corp 3.4%, NFP Corp 3.3%, Acrisure LLC 2.9%, Surgery Center Holdings Inc 2.9%, TKC Holdings Inc 2.8%, Realogy Group LLC 2.8%, VistaJet Ltd 2.7%, Comstock Resources Inc 2.6%, Charter Communications Inc 2.2%, Nordstrom Inc 2.2%, Ardonagh Midco 3 PLC 2.1%, Delta Air Lines Inc 1.8%, Expedia Group Inc 1.8%, Marriott International Inc 1.7%, Uniti Group LP 1.7%, Host Hotels & Resorts LP 1.7%, Park Intermediate Holdings LLC 1.6%, Tutor Perini Corp 1.5%, Michaels Stores Inc 1.5%, AssuredPartners Inc 1.4%, Beacon Roofing Supply Inc 1.4%, Midas Intermediate Holdco II LLC 1.4%, Core & Main Holdings LP 1.4%, Hearthside Finance Co Inc 1.3%. All information in this report is as of the date shown in the upper right hand corner unless otherwise indicated and is subject to change without notice. Portfolio statistics include accrued interest unless otherwise stated. Totals may not sum due to rounding.

Attribution is used to evaluate the investment management decisions which affected the portfolio's performance when compared to a benchmark index. Attribution is not exact, but should be considered an approximation of the relative contribution of each of the factors considered.

Net-of-fees composite returns were calculated using the highest model investment advisory fees applicable to portfolios within the composite. Fees may be higher for certain pooled vehicles and the composite may include accounts with performance-based fees. All performance results are net of commissions and transaction costs, and have been presented gross and net of investment advisory fees. Dividend income is recorded net of foreign withholding taxes on ex-dividend date or as soon after the ex-dividend date as the information becomes available to Artisan Partners. Interest income is recorded on the accrual basis. Performance results for the Index include reinvested dividends and are presented net of foreign withholding taxes but, unlike the portfolio's returns, do not reflect the payment of sales commissions or other expenses incurred in the purchase or sale of the securities included in the indices.

ICE BofA US High Yield Master II Index measures the performance of below investment grade $US-denominated corporate bonds publicly issued in the US market. J.P. Morgan Leveraged Loan Index is designed to mirror the investable universe of the USD-denominated institutional leveraged loan market. ICE BofA BB US High Yield Index is a subset of ICE BofA US High Yield Index including all securities rated BB1 through BB3, inclusive. The index(es) are unmanaged; include net reinvested dividends; do not reflect fees or expenses; and are not available for direct investment.

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Non-Investment Grade refers to fixed income securities with lower credit quality. **Spread** is the difference in yield between two bonds of similar maturity but different credit quality. **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. **Free Cash Flow** is a measure of financial performance calculated as operating cash flow minus capital expenditures.

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