Artisan High Income Strategy

QUARTERLY
Commentary

As of 31 December 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.

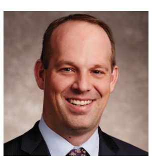
Value Identification

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 31 December 2020	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception[1]
			Average Annual Total Returns				
Composite — Gross	**7.97**	**11.00**	**11.00**	**8.24**	**10.03**	—	**8.05**
Composite — Net	**7.79**	**10.24**	**10.24**	**7.49**	**9.26**	—	**7.29**
ICE BofA US High Yield Master II Index	6.48	6.17	6.17	5.88	8.43	—	5.35

Annual Returns (% USD) 12 months ended 31 December

	2016	2017	2018	2019	2020
Composite — Gross	**15.74**	**9.90**	**-0.72**	**15.09**	**11.00**

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

With the continued reflation of risk, our portfolio outpaced the ICE BofAML US High Yield Index in Q4 to finish the year with more than 375bps of outperformance. Contributing to the portfolio's excess returns during the quarter were cyclical recovery names in retail, capital goods and transportation sectors as well as strong performance from the portfolio's COVID-disrupted fallen angels. Elsewhere, the portfolio's underweight to call-constrained BB-rated bonds in favor of more credit-sensitive holdings was a source of relative strength during the period's risk-on gains.

For the year and consistent with our history, strong credit selection and our ability to use dislocations to add risk in areas with supportive fundamentals were both critical to our success. Our allocation to more levered but less cyclically exposed segments—particularly insurance brokers and software providers—helped buoy the portfolio during Q1's liquidity-driven selloff. And investments made in COVID-disrupted businesses during the depths of the crisis helped drive outperformance throughout the recovery. As we often note, our unconstrained portfolio construction and ability to allocate opportunistically across the credit spectrum are clear differentiators of our approach. Our results in 2020 speak the success of this flexible mandate and our ability to generate strong relative and risk-adjusted returns against a constantly changing investment backdrop.

Investing Environment

On the surface, 2020 seemed mostly a coupon-clipping environment. Credit spreads at the end of the year were relatively unchanged from levels 12 months ago, while the year's gains (6.2%) were just north of the coupon for the index at the start the year. Of course, the environment was far more noteworthy than returns would suggest. What's not evident on the surface was the severity of the year's selloff or that markets would require direct Fed intervention to alleviate a real risk of collapse. It's clear in hindsight the mantra of "don't fight the Fed" was never truer, as unprecedented central bank stimulus and yield suppression resulted in the sharpest recovery in history for risk assets. For credit investors, the Fed's explicit support for corporate borrowers meant the best performing trades were those that directly benefited from the central bank's response: High quality, long duration and recent fallen angels were clear areas of strength. And at the other end of the spectrum, the Fed's move to cut rates to zero left little demand for floating-rate assets like leveraged loans, which finished the year with relatively uninspiring returns (3.2% as measured by the JPMorgan Leveraged Loan Index).

It wasn't until news of a viable vaccine in Q4 that animal spirits were released as investors rotated out of quality toward more credit-sensitive segments. Capital flowed toward credits that offered both convexity and outsized yields, with investors indiscriminately purchasing the most deeply discounted capital structures. The dual themes of discount and yield resulted in outsized gains for distressed credit, which rallied more than 25%. While CCCs ended with their best quarter since 2016, full-year returns still lagged higher-rated segments. In all, BBs (8.6%) materially outperformed Bs (3.7%) and CCCs (2.9%) for the year.

Widespread credit availability provided most distressed companies a liquidity lifeline to make it through the worst of the crisis. The Fed's backstop opened primary markets to even the most leveraged borrowers, allowing companies to raise liquidity at an unprecedent clip. A record $450 billion was syndicated in 2020 as companies looked to bridge a standstill in revenues. As a result, default activity was just a fraction of the level expected at the depths of the crisis. While a record number of investment grade companies found their obligations downgraded to junk status, broad default rates only reached 7%—well below the double-digit default rate that coincides with most recessions. Interestingly, default activity was concentrated in sectors already facing disruption before the pandemic and not because of it. Sectors most impacted by the pandemic only accounted for about 5% of high yield's default volumes. Instead, areas at the epicenter for bankruptcies over the last several years—notably energy, telecom and retail—accounted for more than 70% of bond defaults in 2020.

Portfolio Positioning

For the quarter, the biggest changes to positioning occurred with the portfolio's asset mix. Our strategy has flexibility to invest across the capital structure, investing in the debt instrument that offers the most attractive risk-adjusted return potential. Given the strong performance for high-quality credit risk and the relatively weak returns provided by leveraged loans during the year, we selectively trimmed our bond exposure in favor of loans. As yields for BB-rated bonds have fallen below pre-COVID levels, we view the incremental yield and additional seniority of leveraged loans as a good substitute for high-quality credit risk. Most of the change occurred within our technology holdings, where we added new first-lien loans that, in general, provide 150bps of additional yield relative to BB-rated bonds. In total, our bond allocation decreased 7.8ppts to 69.8%, while our loan allocation increased 5.3ppts to 26.7%.

During the year, we looked to exploit broad risk aversion by adding to existing exposure or initiating new positions in select companies facing transitory COVID disruption. We remained focused on directing the portfolio toward companies and industries with sufficient access to capital and flexibility to make it to the crisis's conclusion. While we've had a significant underweight to the leisure sector, investments in travel, lodging and entertainment landed our leisure exposure among the portfolio's largest sector weights by year end. Roughly 35% of this exposure is in investment-grade issuers that trade with high yield valuations.

There were no material changes to the portfolio's top holdings during the quarter. Our portfolio remains focused on our highest conviction names, with 30.5% of the portfolio in the top 10 issuers.

For the full year, the portfolio's top contributor came from secured and unsecured positions in one of the world's largest cruise line operators. We first initiated our position in the company at the depths of the crisis after the CDC's no-sail order suspended sailings. Facing significant monthly cash burn and refunds for canceled sailings, the company came to the market in early April to raise enough liquidity to bridge a period of prolonged revenue declines. We participated in the biggest piece of financing, which came from the issuance of a $4 billion senior secured bond offering. The first-priority senior secured debt came with significant concessions, was issued with 11.5% coupon at a one-point discount and was backed by collateral that included most of its cruise fleet. As the year went on, we also added to other secured and unsecured positions as it became clear the company's loose bond documents and large portfolio of assets provided enough flexibility to raise funds and extend its liquidity lifeline. Even with the current lack of sailings, new bookings data suggest significant pent-up demand for the back-half of 2021 that will ease the company's near-term liquidity issues. Longer term, the company is well-positioned to emerge from the crisis leaner and more efficient, allowing for significant deleveraging and the eventual return to an investment grade rating.

Elsewhere, higher-rated, more interest rate-sensitive assets were clear outperformers, benefiting our longer-dated positions in an investment grade industrial giant and fallen angel high-end department store chain. The industrial conglomerate has been among the portfolio's largest positions since late 2018 after rating agencies downgrades pushed spreads for the company's debt well into high yield territory. Since then, management has undertaken the difficult task of rebuilding its balance sheet by selling off pieces of its sprawling portfolio to emerge as a simpler, stronger leading industrial conglomerate. The successful monetization of several ancillary businesses—along with a global reach for yield—helped push yields for its capital structure near all-time lows, resulting in mid-teens returns for the portfolio's various unsecured credits.

A luxury department store also landed among the year's top contributors following outsized gains in Q4. We initiated our position in the upscale department store in late September after S&P removed its investment grade rating for the issuer's debt complex. Throughout September, we accumulated positions for various unsecured instruments across the maturity spectrum at mid-$70s and low-$80s prices. In our view, the company had made sufficient moves to weather store shutdowns and had enough balance sheet flexibility for the next year of operations. Importantly, the company generates significant digital sales and gets close to a third of its revenues from its off-price channel—both of which offset weakness for its full-line stores. With vaccine news and the expected release of pent-up demand, all our positions have rallied back toward par, returning in aggregate more than 25% in Q4.

Other top contributors for the year came from our investments in the unsecured debt of a natural gas producer. The debt was among the portfolio's highest returning investments after we initiated our position at distressed prices in late March. Since then, the company's credits have rallied through par with the recovery in risk sentiment. In our opinion, the company is best positioned to be among the key beneficiaries of what we believe will be a secular recovery for 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. 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.

Among detractors for the year were energy and energy-related names. We entered the year with a material underweight to the energy sector before adding aggressively during the downturn. Many of these investments helped drive outperformance throughout the recovery, but existing investments in a handful of idiosyncratic turnaround stories were disproportionately impacted by the year's energy downturn. Our investments in an oil sector supplier and an oilfield services provider were both restructured as the severe downturn for the sector left both companies with unsustainable capital structures. Additionally, our holdings in the short-dated credits of a propane gas distributor detracted. With several upcoming maturities, the company had been exploring several options to secure a long-term capital structure solution coming into the year. But difficult capital market conditions in Q1 limited the company's ability to deal with its near-term debt, and we ultimately chose to end our campaign in favor of more attractive risk/reward opportunities.

Perspective

Despite the widespread dislocation that characterized the first half of the year, credit markets have made a full retracement following the COVID-induced downturn. Credit spreads are approaching pre-COVID levels while all-in yields are at their lowest levels in the market's 30-year history. There is less dispersion in pricing today as fewer than 4% of bonds trade at distressed levels despite broad leverage levels nearing multi-decade highs. Nonetheless, in today's environment of historically low interest rates, the case for high yield credit remains. Leveraged credit is one of the few asset classes that still offers compelling yield opportunities in a world where they're increasingly scarce. Because of these dynamics, we anticipate gradually improving credit fundamentals will be met with more capital from yield-seeking investors, pushing spreads ever tighter. Still, there are several unknowns, and the road to recovery is likely to be met with some setbacks in 2021 if expectations come up short of what's priced in risk assets.

It's safe to say the focus on credit fundamentals will become increasingly important as the prospect for broad outsized price gains appears limited. Volatility is likely to result in more differentiation across securities and capital structures, benefiting those willing to perform diligent credit analysis. With our process built on bottom-up security selection, we believe our approach of identifying mispriced securities will be particularly appealing during these periods of market dislocations. As always, we'll continue to focus on attractive idiosyncratic and catalyst-driven opportunities while being selective about the risks we take, believing this high-conviction process will be rewarded over our long-term investment horizon.

For more information: Visit www.artisanpartners.com

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Unless otherwise indicated, the Artisan Strategy characteristics relate to that of an investment composite or a representative account managed within a composite. It is intended to provide a general illustration of the investment strategy and considerations used by Artisan Partners in managing that strategy. Individual accounts may differ, at times significantly, from the reference data shown due to varying account restrictions, fees and expenses, and since-inception time periods, among others. Where applicable, this information is supplemental to, and not to be construed with, a current or prospective client's investment account information. References to individual security performance relate to a representative account in the composite. Individual holding periods may differ.

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 holdings mentioned comprised the following percentage of a representative account withing the composite's total net assets as of 31 Dec 2020: Cruise line operator 3.6%; Industrial conglomerate 5.9%; Luxury department store 2.2%; Natural gas producer 2.3%; Propane gas distributor 0.9%; Oil sector supplier and oilfield services provider 0.3%. Securities named in the Commentary, but not listed here are not held in the portfolio as of the date of this report. Portfolio holdings are subject to change without notice and are not intended as recommendations of individual securities. 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. 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.

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