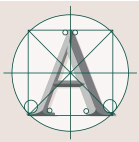

Artisan Floating Rate Strategy

QUARTERLY
Commentary

As of 31 March 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 (% USD)

As of 31 March 2022	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception[1]
			Average Annual Total Returns				
Composite — Gross	**-0.47**	**-0.47**	—	—	—	—	**-0.47**
Composite — Net	**-0.64**	**-0.64**	—	—	—	—	**-0.64**
Credit Suisse Leveraged Loan Index	-0.10	-0.10	—	—	—	—	-0.10

Annual Returns (% USD) 12 months ended 31 March

	2018	2019	2020	2021	2022
Composite — Gross	—	—	—	—	—

Source: Artisan Partners/Credit Suisse. Returns for periods less than one year are not annualized. [1]Composite inception: 1 January 2022.

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. Composite performance has been presented in both gross and net of investment management fees. The portfolio's returns may vary greatly over shorter periods due to the limited operating period since inception.

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 trailed the Credit Suisse Leveraged Loan Index in Q1. The entirety of our underperformance can be attributed to asset allocation decisions. The portfolio's out-of-benchmark holdings in floating-rate perpetual securities, which are held for liquidity purposes, created modest headwinds with the pickup in volatility across interest rates and risk assets. This weakness was somewhat offset by strength from the portfolio's leveraged loan holdings, which were led by our relative overweight to—and strong security selection among—software, services and technology sectors. As we look ahead, we're comfortable with our positioning and believe our dedication to deep fundamental research and unique approach to portfolio construction will be differentiators with ongoing volatility.

Investing Environment

Volatility returned to markets in Q1 as the investing backdrop quickly shifted from one driven by reopening-fueled momentum to one pressured by inflationary concerns and the humanitarian and economic costs of the war in Ukraine. With consumer prices rising uncomfortably across many segments of the economy, global central banks moved to begin withdrawing virus-induced policy accommodation in an effort extinguish ongoing inflationary pressures. The dual shocks of tighter monetary conditions and geopolitical uncertainty led to widespread volatility across interest rates and risk assets. While drawdowns across equity markets were notable, the response across leveraged credit markets was muted in comparison. Leveraged loans experienced a nearly limitless bid from investors seeking out floating-rate assets amid a period of heightened interest rate volatility and expectations of higher rates. The Credit Suisse Leveraged Loan Index finished the quarter largely unchanged—in stark comparison to the losses for more duration-sensitive segments like the ICE BofA US High Yield Index (-4.5%) and ICE BofA US Corporate Index (-7.7%).

Credit valuations made a complete round trip during the quarter, moving to December 2020 wides in March before finishing the quarter largely unchanged. With discount margins near 440bps, valuations remain below long-term averages, suggesting the environment for credit risk remains relatively benign despite economic and geopolitical uncertainty. Across the credit spectrum, higher rated risk held up better with the pickup in volatility, though the difference across rating buckets was nearly indistinguishable. The only outlier was CCC and distressed loans, which fell 1.8% and 3.3%, respectively.

On the primary front, new issuance activity across bonds and loans came to a standstill with the pickup in equity volatility and spike in interest rates. Total new supply is down 40% from a year ago as refinancing activity slowed with higher all-in yields.

Despite the pickup in volatility, the health of corporate credit markets remained strong. The quarter saw just three companies default on their bond and loan obligations. The quiet quarter meant the 12-month par-weighted default rate moved to near record lows below 0.5%. Importantly, despite the pickup in volatility, the number of distressed candidates in the markets is largely unchanged from the start of the year. Today, less than 2% of loans in the market trade at distressed levels, suggesting a supportive environment for credit fundamentals.

Investment Process Highlights

At the core of our strategy is a commitment to finding undervalued floating-rate opportunities that offer compelling risk-adjusted returns. A key pillar of our approach is relying on our own in-depth fundamental research to determine the creditworthiness of a given company. We acknowledge that the marketplace looks to ratings, but the ratings agencies, in our view, tend to overemphasize hard assets and underemphasize cash flow and intangible assets like intellectual property and technology. For this reason, we generally prefer less cyclical and commodity-oriented issuers in favor of higher multiple, asset light businesses. These issuers tend to be characterized by full-cycle business models that have predictable cash flows, low capital expenditures needs and unique deleveraging capabilities. The result is a portfolio that looks very different from the index and peers, but one that is better positioned to withstand the challenges facing investors today.

We also take a unique approach to portfolio construction. Because we dedicate significant time and resources to obtaining a complete picture of a company's fundamentals, we're able to better understand the range of possible outcomes in the credits we invest. With roughly a quarter of our portfolio concentrated in our largest ten issuers, our focused approach allows our highest conviction ideas to meaningfully impact returns, resulting in a more durable risk profile than the index-aware approach taken by many of our peers.

Finally, our portfolio is constructed without any preconceived allocations and is not built with the index in mind. Instead, we have broad flexibility to invest across industries, issuance sizes and the credit spectrum as the cycle unfolds. Our broad mandate allows us to opportunistically rotate the portfolio to areas that provide the best risk-adjusted returns.

Portfolio Positioning

We remain constructive on the leveraged loan landscape as the pickup in volatility has created a more balanced outlook. Attractive yield valuations, light new issuance and robust demand for floating-rate assets have created a backdrop supportive for returns. Still, in the context of the current environment, in which global growth is likely peaking and financial conditions tightening, we've structured the portfolio with a focus on companies that generate strong free cash flow and have a unique ability to weather future volatility. With our bottom-up approach, we focus on companies that have full-cycle business models, resulting in a portfolio with a notable underweight to economically sensitive sectors in favor of software, services and

insurance brokers. Across the ratings spectrum, we take a more balanced approach with an underweight to both higher rated and lower rated holdings in favor of B-rated loans. Importantly, with expectations for higher policy rates in the quarters ahead, we expect our portfolio to begin floating with each subsequent rate increase going forward. The weighted average LIBOR floor of the portfolio is roughly 50bps with approximately a third of the portfolio not subject to LIBOR floors.

Credit Research in Detail

To emphasize our focus on deep credit work, we'd like to highlight two of the portfolio's high conviction holdings. The portfolio's largest position is in the first lien loan of KUEHG Corp, which does business as KinderCare Learning Companies. The company is the largest provider of child care and before and after-school education services in the US, with nearly 1,500 locations across 40 states. We expect KinderCare to be well positioned to benefit from the secular demographic trend of dual family incomes, the increasing focus on early childhood education and overall industry consolidation. But like many child care providers, KinderCare faced a significant hit to enrollment as a result of COVID-related closures. Government support helped bridge the recovery in headcount and offset operating expenses during the worst of the pandemic, and occupancy numbers have since dramatically recovered. The company recorded its highest enrollment numbers in Q1, leaving rating agencies to upgrade the capital structure out of CCC. KinderCare is looking to take advantage of the positive momentum with a potential public offering with anticipated proceeds directed toward debt reduction and growth opportunities. Our position in the first lien loan trades at a modest discount, resulting in mid-single digit yields—attractive value given a three-year maturity profile and strong credit momentum.

Another high conviction holding is in the first and second lien loans of investment firm Edelman Financial Engines. The company is the result of a 2018 tie-up between wealth management group Edelman Financial Services and retirement planning provider Financial Engines, resulting in the largest independent RIA in the US. The combined entity provides fee-based advice for the US retirement market with different pricing tiers across workplace and retail accounts. Much of the company's assets under management are concentrated in workplace 401(k) plans, but individual retail accounts generate nearly 60% of the firm's revenues. This focus on corporate retirement plans creates natural cross-selling opportunities, as lower margin workplace clients are converted into high-margin retail advisory accounts. With strong organic growth in AUM, the business is capital light and has minimal capex needs, allowing for significant free cash flow to support deleveraging and strategic acquisitions. From a relative value standpoint, both the first and second lien loans trade at modest discounts. And while the second lien loan matures before the first lien loan, we expect the company to refinance the second lien loan ahead of its maturity.

Perspective

The price action over the quarter gives us confidence to say the era of ultra-low dispersion that has characterized the credit environment over the last year is over. Idiosyncratic credit risk has largely been masked by a pull-to-par, risk-on environment. But as we move forward, investors are likely to contend with an environment of improving credit fundamentals offset by the risks of tighter monetary conditions and geopolitical uncertainty. We think this will lead to a more robust opportunity set and a better environment for credit selection as the differences in pricing across credits become more pronounced. With our process built on bottom-up security selection, we believe our approach of identifying mispriced securities across the credit spectrum and across capital structures will be notable differentiators. We welcome the reemergence of volatility and will use dislocations to add risk in areas with supportive fundamentals.

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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.

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 Mar 2022: KUEHG Corp 4.7%, Gridiron Fiber Corp 4.2%, Edelman Financial Engines Center LLC 3.7%, AssuredPartners Inc 3.5%, Ankura Consulting Group LLC 3.0%, TKC Holdings Inc 2.7%, athenahealth Inc 2.7%, Renaissance Learning Inc 2.6%, SRS Distribution Inc 2.6%, MJH Healthcare Holdings LLC 2.4%, Scientific Games Holdings LP 2.4%, Nexus Buyer LLC 2.4%, SIRVA Worldwide Inc 2.3%, TransDigm Inc 2.1%, Illuminate Merger Sub Corp 2.0%, General Electric Co 2.0%, USI Inc 2.0%, Employbridge LLC 2.0%, Safe Fleet Holdings LLC 1.9%, Bengal Debt Merger Sub LLC 1.9%, Virgin Pulse Inc 1.9%, NCL Corp Ltd 1.9%, Matrix Parent Inc 1.8%, HUB Holdings LLC 1.7%, Fogo De Chao Inc 1.7%. 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.

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. J.P. Morgan Leveraged Loan Index is designed to mirror the investable universe of the USD-denominated institutional leveraged loan market. ICE BofA US Corporate Index tracks performance of US dollar performance for investment corporate debt publicly issued in the US market. 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. 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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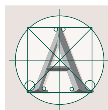
A R T I S A N  P A R T N E R S