Artisan Value Income Strategy

QUARTERLY
Commentary

As of 30 September 2022

Investment Process

We seek to invest in companies that are undervalued, in solid financial condition and have attractive business economics. We believe that companies with these characteristics are less likely to experience eroding values over the long term.

Attractive Valuation

We value a business using what we believe are reasonable expectations for the long-term earnings power and capitalization rates of that business. This results in a range of values for the company that we believe would be reasonable. We generally will purchase a security if the stock price falls below or toward the lower end of that range.

Sound Financial Condition

We prefer companies with an acceptable level of debt and positive cash flow. At a minimum, we seek to avoid companies that have so much debt that management may be unable to make decisions that would be in the best interest of the companies' shareholders.

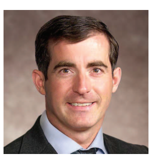
Attractive Business Economics

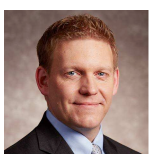
We favor cash-producing businesses that we believe are capable of earning acceptable returns on capital over the company's business cycle.

Team Overview

Everyone on the team functions as a generalist with respect to investment research and the entire team works together on considering potential investments.

Portfolio Management


Thomas A. Reynolds IV
Portfolio Manager


Daniel L. Kane, CFA
Portfolio Manager


Craig Inman, CFA
Portfolio Manager

Investment Results (% USD)

			Average Annual Total Returns				
As of 30 September 2022	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception[1]
Composite — Gross	**-6.61**	—	—	—	—	—	**-16.34**
Composite — Net	**-6.78**	—	—	—	—	—	**-16.69**
S&P 500® Index	-4.88	—	—	—	—	—	-17.23
Dow Jones US Select Dividend Index	-7.71	—	—	—	—	—	-11.07

Annual Returns (% USD) 12 months ended 30 September

	2018	2019	2020	2021	2022
Composite — Net	—	—	—	—	—

Source: Artisan Partners/S&P/S&P DJI. Returns for periods less than one year are not annualized. [1]Composite inception: 1 March 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 near the back of this document, which should be read in conjunction with this material.

Investing Environment

Q3 was a tale of two halves. US stocks rallied early in the quarter on better-than-feared earnings, strong top-line growth aided by price increases, and hopes of a Federal Reserve pivot due to peak inflation, before ultimately succumbing to bond market volatility. US Treasury yields continued their sharp ascent as it's become evident the Fed has more work to do on the inflation front given tight labor markets and strong wage growth. The bond market carnage has been historic. The yield on the US 2-Year Treasury bond has risen 400bps in the past year—the kind of move we haven't seen since the late 1970s/early 1980s. Bonds, which are supposed to be less risky than stocks, have incurred steep price declines, wreaking havoc on balanced portfolios. As perspective, the S&P U.S. Treasury Bond 20+ Year Index, which measures the performance of U.S. Treasury bonds maturing in 20 or more years, has returned -30% YTD.

Taking their cues from the bond market, stocks have re-rated lower in 2022 from the readjustment to the cost of capital and fears that tighter monetary policy may lead to an economic hard landing. In Q3, the S&P 500® Index fell 4.88%—its third-consecutive quarterly decline. All sectors aside from energy and consumer discretionary finished lower; communication services and real estate were weakest, with double-digit declines. From a style perspective, growth stocks pulled ahead of value for the quarter, after being trounced by value in the first half of 2022. FX market volatility has been another major story this year. A hawkish Fed, higher US interest rates and investors seeking safety are among the factors driving the rapid rise in the US dollar. A strong US dollar has the effect of tightening financial conditions globally, and when it appreciates rapidly as it has, there's more risk to financial system stability. For US companies that generate sales overseas, negative currency translation effects are an additional headwind to profits, on top of potential higher input, labor and borrowing costs.

The world today faces many challenges, perhaps more than we've seen in several decades. Inflation is running at its highest levels in 40 years; several European economies, as well as the US, are heading toward, or already are in, a recession; and China's property market is wobbling. There are record levels of private and public debt, spurred on by interest rates artificially repressed by central banks and decades of deficit spending. There is a tense and escalating ground war in Europe, the first since WWII. This is causing a variety of energy crises on the cusp of winter in the Northern Hemisphere. Currency fluctuations are becoming problematic for governments and corporations, evidenced by the Bank of England's intervention in September. Growth is slowing across the globe, in a system that is set up to thrive mainly under growthier scenarios, and the relationship between two of the world's superpowers is growing ever strained. All this is on the heels of a global pandemic. How is that for a dire set of circumstances? While this all sounds quite depressing, if history is any guide, these challenges should create great long-term buying opportunities for investors.

Performance Discussion

Our portfolio underperformed the S&P 500® Index in Q3. Select holdings in the consumer staples and health care sectors drove the relative return deficit. In these sectors, key individual detractors were Tyson Foods and Fresenius Medical Care. Additionally, sector allocation impacts were negative due to an above-benchmark weighting in real estate and a lighter weighting in consumer discretionary.

The largest food processor in North America, Tyson Foods is a marketer and distributor of chicken, beef, pork and prepared foods. Top-line growth has remained strong, but margins have been volatile. The margin issues have been primarily in its chicken and prepared foods businesses, as beef margins have benefited from ample cattle supply, global export demand and high US domestic retail prices. In the other segments, inflationary pressures have ranged from higher raw material costs to supply chain constraints and labor availability issues. Some of these factors are out of its control, but the company is making efforts to increase labor availability and shift contract terms toward variable price models that could repair margins more quickly. The business has improved over time—the company has spent years moving away from commodity processing toward a greater mix of higher margin branded products and packaging. This has contributed to solid return on invested capital and free cash flow generation. Additionally, revenue growth has benefited from a natural long-term health and wellness tailwind of protein demand rising in the US and globally as diets improve by replacing processed foods with healthier alternatives like protein.

Fresenius Medical Care is a vertically integrated provider of dialysis equipment and services. The company has experienced headwinds related to the pandemic, most notably due to the higher mortality rates found among dialysis patients. We anticipated the business would recover post-COVID and benefit from the secular growth of its end markets; however, the company has also suffered from cost inflation pressures and reimbursement challenges. Based on these factors, we chose to sell our remaining shares in favor of better opportunities.

Another weak performer was Comcast, a leading broadband cable company in North America and a global content producer. Comcast and other cable stocks have been punished due to concerns about increasing competition from wireless providers. While wireless companies are entering new markets, 5G is not currently competitive with cable's download speeds, and based on the physics of wireless data delivery, 5G is unlikely to be competitive with cable for many years, if ever. Cable continues to have a competitive advantage with respect to network speeds, reliability and capital intensity. In July, Comcast reported better-than-expected revenues and earnings but failed to add broadband customers in the prior quarter for the first time ever. CEO Brian Roberts partly attributed the decline in new broadband connects to fewer people moving, though increased competition from wireless services may also be a factor. However, we believe it was inevitable that customer growth would eventually slow. Interestingly, churn remains at record low levels—a positive metric that speaks to cable's value proposition. High recurring revenue, pricing power and low capital intensity make for a powerful economic model that contribute to Comcast's free cash flow generation, allowing the company to play offense with regards to capital allocation. In summary, Comcast is a well-financed business with a wide competitive moat that trades cheaply at just 8X our estimate of normalized earnings.

On the positive side, H&R Block (HRB) and STORE Capital (STOR) were top contributors. HRB, a tax preparer, has been firing on all cylinders. Volumes and margins have benefited from increased tax filing complexity given the influences of increased retail trading in stocks and cryptocurrency and one-time child tax credits. A mix shift toward more complex tax filings has led to share gains in the higher value-add assisted tax prep category. In an inflationary environment and amid concerns of economic slowing due to tightening financial conditions, investors naturally value HRB's pricing power, steady growth characteristics, strong free cash flow and robust return of capital. Through the ups and downs of the economic cycle, we believe the company should remain one of the industry's best brands based on its strong market share positions.

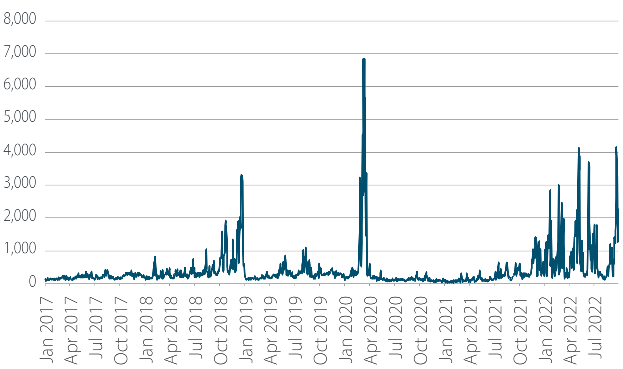
STOR is a triple net lease REIT that is in our bond proxy bucket. A triple net lease utilizes a unique structure in which the lessee pays the property's real estate taxes, insurance and maintenance costs. In a typical transaction, STOR purchases an asset and leases it back to a company for the company's use, freeing up capital for the lessee. Triple net leasing is less capital intensive than the average real estate business. The stock rose on news that STOR agreed to be acquired by Singapore sovereign wealth fund GIC and private equity firm Oak Street for $32.25 per share in cash, representing a 20.4% premium to the stock's prior close.

Portfolio Activity

In our review of the current investment environment, we painted a dire picture of conditions, but we noted that past experience foretells better long-term returns following similar periods. Trying to effectively forecast how a set of circumstances will turn out will undoubtedly teach you a fantastic lesson in humility. There are thousands, if not hundreds of thousands, of variables in a global market, rendering a correct forecast of the macro future almost impossible. However, we use the circumstances that make other investors fearful to our advantage. We basically classify markets into one of two states: risk seeking or risk fearing. In a risk-fearing market like early 2020 and again today, we use investors' tendency to sell stocks into a declining market to our advantage. It gives us an opportunity to buy high-quality companies at significant discounts to their underlying worth. We are certainly aware that investing in parts of the economy during these periods may involve businesses that are slowing, sometimes for an extended period. However, we put our margin of safety criteria to work, combine it with a long-term time horizon, and provide liquidity to those investors that want to bail out into a selloff. This approach takes patience, a strong stomach at times and, most importantly, a deep understanding of the fundamental value of a business.

We are currently busier than we have been since the throes of the pandemic in early to mid-2020. Earnings expectations have become more reasonable. The cost of capital is now real, and the result is valuations have compressed. These conditions have given us a green light, and our pipeline of investment candidates is filling up. The improving buying opportunity is evident in the number of new 52-week lows across US exchanges, which is near the highest levels since the pandemic and of the past 5 years (Exhibit 1).

Exhibit 1: Bloomberg Total Number of New 52-Week Lows on US Exchanges



Source: Bloomberg/Artisan Partners. As of 30 Sep 2022. The Bloomberg Index of 52-week lows contains common stocks, ETFs and ADRs. **Past performance does not guarantee and is not a reliable indicator of future results.**

While our list of potential candidates is filling up, we are being patient. We had two big purchases in Q3. Interestingly, they were both fixed income securities in our capital structure bucket. Our capital structure investments are those involving non-equity parts of the capital structure. Having the flexibility to invest in fixed income allows us to enhance the yield of the portfolio and be more opportunistic across asset classes. We expect the typical weighting in the capital structure bucket to range between 0%-20%, and it was ~9% as of the end of Q3. The issuers of the securities we purchased in Q3 are Redwood Trust (RWT), a mortgage REIT, and Weatherford International, a multinational oilfield services company. We have followed RWT since before the Global Financial Crisis. RWT is a good credit underwriter and well-respected in the industry. While it takes a little more credit risk than some other mortgage REITs, we believe it is well-capitalized. In June, RWT issued a 5-year convertible bond maturing in 2027 that was yielding about 10% at the time of our purchase in early August. The forced selling in bond markets gave us an attractive entry point. The convert strike is $10.45, which is well below book value, meaning if the company performs well or even just okay, the convert option could come back into play. A 10% yield, with the potential for the common stock's price to move through the strike, is an attractive structure.

Weatherford was a long-struggling energy services company that emerged from bankruptcy in 2020. A new management team was instated, the balance sheet was right-sized, and unprofitable, capital-intensive business lines were shed or shuttered. It's a dramatically improved business that we believe is misunderstood. We don't believe the market is giving the restructured company credit for the sustainability of its improved operating margins and free cash flow generation. The majority of the company's business has relatively high barriers to entry, which provide it pricing power. These specialized services, like managed pressure drilling, are used in technologically more challenging offshore markets, which are experiencing strong demand. We purchased the company's 11%-coupon notes due December 2024 and that are callable starting in Q4 2022. Weatherford has enough cash on its balance sheet to call the bonds and has an incentive to take them out to refinance at lower rates. For this callable bond, the yield to worst was 9% at the date of purchase.

On the sales side, in addition to exiting Fresenius Medical Care as previously discussed, we sold the Twitter March 2026 convertible bond. Twitter is a prime example of our unconventional approach to achieving portfolio yield that is differentiated from most of our equity-income peers. While Twitter does not pay a dividend, we invested in multiple parts of its capital structure: common stock, corporate bonds and convertible bonds. We sized each of these positions seeking to generate a current yield that is 2X that of the S&P 500® Index. We looked to the two-year debt to provide ballast and the necessary coupon; the out-of-the-money convertible bond would provide ballast, income and upside should Twitter's fundamentals finally deliver; and the common stock was sized to fill the space between the debt and the out-of-the-money strike on the convert. We also felt this structure tilted the risk-reward in our favor. Although this had been a winning investment out of the gates due to the stock price spiking on Elon Musk's takeout offer, we would have preferred to have held the positions a few years as business value compounded and value could be more fully realized. Digital advertising is a large market growing faster than advertising as a whole, and while Twitter's business has significantly lagged its peers, the company has made tangible technology investments to shift its business from brand advertising to faster growth and higher value direct response advertising.

Perspective

Various policy interventions and bailouts over the past couple decades have caused a number of market distortions. For example, there hasn't been a true cost of capital in the markets for many, many years now. As such, there's been very little penalty for companies that do wrong or risky things; for example, overleveraging their balance sheets hasn't cost much in terms of punitive covenants or high interest payments, corporations have made expensive acquisitions given the cheap cost of debt, and investors have encouraged stock buybacks at a greater and greater pace with the assistance of leverage. When your cost of capital is so low, it's easy to see why this has happened. As the cost of capital, and hence the discount rate, goes ever lower, the present value goes ever higher. It's just math. But it doesn't mean there is any less risk or greater certainty in the stream of cash flows.

Given this backdrop, the low-rate environment had supercharged the success of growth and momentum strategies. In this environment of free money, companies were rewarded for pursuing revenue, not profit, and many unproven and often questionable business models were allowed to operate. Investors in those companies enjoyed strong returns despite owning less proven streams of cash flows, much of which were expected to happen way out into the future (i.e., long duration stocks). On the other hand, value strategies that are typically associated with companies that have higher current cash flows as well as higher dividend payouts, have lagged to a significant degree. For disciplined investors with a rigorous process, this has been a large style headwind. You can see this in comparing the performance of the Russell 1000® Growth and Value Indices—the growth index has trounced the value index by over 120% over the past decade. This has reversed since late 2020, and value has finally started to outperform, markedly so on a YTD basis. It's been a very lonely decade to be a value investor, we assure you.

To our credit, we have held firm to our process, not willing to reduce our hurdle rates or pay higher and higher multiples for companies that are showing some semblance of growth, or alternatively, hide out in expensive safe havens. To our detriment, this has cost us relative performance points versus some of our peers and at times versus the index. However, we are focused on generating a positive absolute return for our investors and believe the cost of capital should always be reflected in the riskiness of the cash flows a business produces. That approach is more timeless and is less affected by the whims of the market. Fortunately, after over a decade, value strategies are beginning to get some traction again with investors.

For more information: Visit www.artisanpartners.com

Investment Risks: Dividend payments are not guaranteed and the amount declared, if any, could vary over time. 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. Securities of small- and medium-sized companies tend to have a shorter history of operations, be more volatile and less liquid and may have underperformed securities of large companies during some periods. Value securities may underperform other asset types during a given period. 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.

For the purpose of determining the portfolio's holdings, securities of the same issuer are aggregated to determine the weight in the Strategy. The holdings mentioned above comprised the following percentages of a representative account within the Artisan Value Income Strategy Composite's total net assets as of as of 30 Sep 2022: Tyson Foods Inc 2.1%, Comcast Corp 2.0%, STORE Capital Corp 2.6%, H&R Block Inc 2.4%, Redwood Trust Inc 1.5%, Weatherford International Ltd 1.4%. 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.

Securities referenced may not be representative of all portfolio holdings. Securities of the same issuer are aggregated to determine a holding's portfolio weight. Portfolio statistics calculations exclude outlier data and certain securities which lack applicable attributes, such as private securities. Artisan Partners may substitute information from a related security if unavailable for a particular security. This material is as of the date indicated and is subject to change without notice. Totals may not sum due to rounding. Portfolio security yields are subject to market conditions and are not guaranteed.

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.

S&P 500® Index measures the performance of 500 US companies focused on the large-cap sector of the market. Russell 1000® Growth Index measures the performance of US large-cap companies with higher price/book ratios and forecasted growth values. Russell 1000® Value Index measures the performance of US large-cap companies with lower price/book ratios and forecasted growth values. The Dow Jones US Select Dividend Index measures the performance of the US's leading stocks by dividend yield. 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 manager as of 30 Sep 2022. Those views and portfolio holdings are subject to change and Artisan Partners disclaims any obligation to advise investors of such changes. The discussion of portfolio holdings does not constitute a recommendation of any individual security.

Margin of Safety, a concept developed by Benjamin Graham, is the difference between the market price and the estimated intrinsic value of a business. A large margin of safety may help guard against permanent capital loss and improve the probability of capital appreciation. Margin of safety does not prevent market loss—all investments contain risk and may lose value. **Free Cash Flow** is a measure of financial performance calculated as operating cash flow minus capital expenditures. **Normalized Earnings** are earnings that are adjusted for the cyclical ups and downs over a business cycle. **Yield to Worst (YTW)** is the portfolio's weighted-average lowest potential yield that can be received on a bond without the issuer actually defaulting. **Credit Quality** ratings are from S&P and/or Moody's. 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. If securities are rated by both agencies, the higher rating was used. Securities not rated by S&P or Moody's are categorized as Unrated/Not Rated.

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