Artisan Floating Rate Strategy

QUARTERLY
Commentary

As of 31 December 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 December 2022	QTD	YTD	Average Annual Total Returns 1 Yr	3 Yr	5 Yr	10 Yr	Inception[1]
Composite — Gross	**2.23**	**-0.80**	**-0.80**	—	—	—	**-0.80**
Composite — Net	**2.05**	**-1.48**	**-1.48**	—	—	—	**-1.48**
Credit Suisse Leveraged Loan Index	2.33	-1.06	-1.06	—	—	—	-1.06

Annual Returns (% USD) 12 months ended 31 December

	2018	2019	2020	2021	2022
Composite — Net	—	—	—	—	**-1.48**

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.

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 modestly trailed the Credit Suisse Leveraged Loan Index in Q4. Consistent with our long-term approach, our short-term returns may look meaningfully different from the benchmark and peers, and the quarter's underperformance can be attributed to our differentiated approach to credit selection. While returns at the index level were broadly higher in Q4, the divergence between higher and lower rated risk accelerated as economic growth concerns disproportionately impacted more credit-sensitive assets. For our portfolio, the underweight to outperforming BBs and mark-to-market weakness among idiosyncratic B-rated opportunities were primarily to blame for the quarter's relative weakness. Similarly, our relative overweight to full-cycle but higher multiple businesses in software and services also detracted with the up-in-quality theme. This was somewhat offset by strong security selection across insurance and financials and our relative underweight to the underperforming health care sector. As we move forward, we believe our focused approach to credit selection will be a clear differentiator in the year ahead with more pricing dispersion across sectors and the ratings spectrum. Overarching uncertainty has resulted in a material decoupling between perceived winners and losers, creating growing opportunities for credit selection and attractive prospective returns.

Investing Environment

Credit markets staged a strong recovery as a combination of better-than-expected inflation data and a series of dovish comments from Fed officials catalyzed a U-turn in sentiment that pushed risk assets higher in the year's final months. Credit investors slowly returned to the market, looking to take advantage of positive convexity and double-digit yields. The resurfacing bid came at a time when primary markets were mostly closed to new issuance, creating a positive technical environment that helped push leveraged loans (as measured by the Credit Suisse Leveraged Loan Index) 2.0% higher in Q4 for a full-year return of -1.1%. These returns stand in stark contrast to most fixed income and equity sectors, which experienced nearly double-digit drawdowns due to higher interest rate sensitivity.

Discount margins for the index modestly tightened to 652bps while yields measured on a three-year takeout finished largely unchanged at 11.0%—200bps more than subordinated risk in the high yield market. While valuations at the index level moved tighter throughout Q4, the divergence between higher and lower rated risk accelerated. Growing risk aversion to more leveraged borrowers led investors to pull sponsorship for some of the most stressed capital structures. Nearly $200 billion in loans trade at distressed levels—the highest total since spring 2020—implying investors have less confidence in more leveraged borrowers' ability to withstand tighter financial conditions and slower growth. As a result, lower rated risk lagged during the quarter's rally. BBs led the market higher with gains of 3.6%, followed by Bs (2.4%) and CCCs (-2.8%). For the year, BBs advanced 2.7%, while Bs (-1.3%) and CCCs (-13.3%) declined.

Default activity remained quiet throughout the quarter, with no defaults but nine distressed exchanges impacting $5 billion in bonds and loans. The leveraged loan issuer default rate finished at 1.0%, which remains well below long-term averages and only modestly higher than last year's record lows. Even with a backdrop of higher interest rate volatility and restrictive capital markets, the year's defaults were mainly concentrated in just a few sectors. And while distress underneath the surface reflects building macro concerns, aggregate credit fundamentals continue to show resiliency, with the health of corporate borrowers at one of the best starting points in years heading into this period of uncertainty. Outside of a handful of well understood, struggling borrowers, we expect default rates to trend only modestly higher. Strong fundamentals, reasonable liquidity and the lack of problematic, cyclical sectors—like energy in past cycles—are all reasons that should keep defaults broadly in line with long-term averages.

Portfolio Positioning

The acceleration of the up-in-quality theme allowed us to reposition the portfolio for better yield and total return potential. We incrementally added to our B-rated loan stake, opportunistically rotating into higher quality businesses sidelined by growing investor risk aversion. The portfolio ended the year with 73% of the portfolio in B-rated assets, which trade with a weighted-average price of $91.70—a meaningful discount to $97.60 for BB-rated peers. In our view, these credits offer unique convexity for what we believe are high-quality, full-cycle businesses. Beyond ratings, we also focused the portfolio in short-dated credits that mature in the next 3-5 years—an allocation that represents nearly a third of the portfolio. In our view, the market incorrectly discounts the refinancing outcomes associated with these investments, creating attractive pull-to-par opportunities. Performing companies are generally proactive in managing their maturity schedules, and we've identified several opportunities where we believe refinancing will occur earlier than the market anticipates, driving compelling total returns. Finally, we added some high-quality, first lien high yield bonds trading at significant dollar discounts to add further convexity to the portfolio.

Across sectors, one area we remain tactically underweight is health care, with an exposure of 5.6% versus an index weight of 13.0%. Despite being historically viewed as defensive and less sensitive to economic fluctuations, health care consistently underperformed the index during the quarter and throughout the year. Varying by the specific product, service or issuer, we often find the sector provides inadequate compensation for the inherent credit risk that comes from specific drugs and patient cohorts or from regulatory and reimbursement uncertainty. The sector has one of the highest levels of distressed loans with 14% of the sub-sector trading below a price of $85, translating to 1.7% of the overall index. Our health care exposure resides in low-risk categories, namely product distribution and ambulatory surgical centers.

To illustrate the growing bifurcation between higher and lower rated risk, we highlight our exposure in human capital management solutions provider UKG Inc. The company, formerly known as Ultimate Software Group, was formed by the merger of Ultimate Software and Kronos in April 2020. Before the tie up, the companies had nearly equal revenues and strong market shares in the workforce management segment. The combined entity serves over 70,000 companies globally, ranging from small, mid-size to enterprise level. UKG provides mission-critical human capital software necessary for everyday operations, and once embedded, it is very difficult, expensive and disruptive to rip and replace. From a relative value perspective, the first lien loan, which matures in mid-2026, lagged the broader market during the quarter, allowing us to add to our exposure at mid-90s pricing. At current valuations, the position offers roughly 10% yields one year to maturity, in a strong credit with significant equity cushion beneath our position.

Our exposure in the first and second lien loans of investment firm Edelman Financial Engines is another example of a position that trades disconnected from fundamentals. Edelman is the largest independent RIA in the US. Its assets under management are concentrated in workplace 401(k) plans, but the company also has a growing retail advisory business. The focus on company retirement plans offers natural cross-selling opportunities that allow lower margin workplace clients to be converted into high-margin retail advisory accounts over time. With strong organic growth in AUM, the business has a highly variable expense structure with minimal capex needs, allowing for significant free cash flow to support deleveraging and strategic acquisitions. Because our exposure in the second lien loan matures before the first lien loan, we expect the company to refinance the second lien loan ahead of its mid-2026 maturity. With high 80s prices, we believe we could see mid-teens annualized returns until one year to maturity for an instrument that has loan-to-value ratio of roughly 50%.

Perspective

As we look to 2023, we expect volatility to remain as the investing landscape shifts from one of high inflation and higher interest rates to one of decelerating global growth and growing recessionary risks. While we acknowledge credit markets remain vulnerable to shifts in sentiment, we believe strong credit fundamentals should provide an underappreciated level of support to the market that will keep spreads contained and drawdowns limited. Widespread balance sheet repair since the pandemic combined with strong liquidity positions should allow corporate borrowers to navigate economic headwinds better than prior downturns. Refinancing risk is dramatically lower this cycle as just 4% of issuers rated B and below have maturities coming due in the next two years—compared to nearly 20% of the market at the end of 2020. Valuations are also undoubtedly better than they were just a year ago. With double-digit yields and prices in the low 90s, we believe the asset class can absorb significant volatility and spread decompression.

Underneath the surface, we also expect the high dispersion regime of 2022 to extend into the year ahead. Broad risk aversion has led to a mismatch between fundamentals and valuations, creating opportunities that can be exploited by deep credit research and a highly active approach. As bouts of volatility increase, we will use growing dispersion as an opportunity to strategically invest in credits with attractive risk-reward profiles. Ultimately, we believe the idiosyncratic and focused nature of our portfolio is well-positioned for the current environment and our ability to capitalize on market inefficiencies through individual security selection will be a critical differentiator in the year ahead.

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. 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. 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 Floating Rate Strategy Composite's total net assets as of as of 31 Dec 2022: Ultimate Software Group Inc 4.4%; Edelman Financial Engines Center LLC 3.6%. Securities named in the Commentary, but not listed here are not held in the portfolio as of the date of this report. 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. 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 31 Dec 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.

Credit Quality 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. **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 Issuer Default Rate** measures the percentage of leveraged loan issuers that failed to make scheduled interest or principal payments in the prior 12 months. **Free Cash Flow** is a measure of financial performance calculated as operating cash flow minus capital expenditures. **Credit spread** is the difference between the quoted rates of return on two different investments, usually of different credit qualities but similar maturities. **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. **Yield to three-year takeout** refers to the income received on an investment up to the point at which the loan is refinanced or otherwise paid off. **Yield to maturity (YTM)** is the total return anticipated on a bond if the bond is held until it matures.

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