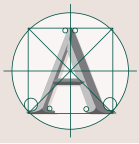

Artisan Floating Rate Strategy

QUARTERLY Commentary

As of 30 September 2024

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 30 September 2024	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception[1]
			Average Annual Total Returns				
Composite — Gross	**2.58**	**6.42**	**9.34**	—	—	—	**7.28**
Composite — Net	**2.40**	**5.88**	**8.61**	—	—	—	**6.56**
Credit Suisse Leveraged Loan Index	2.08	6.61	9.65	—	—	—	6.61

Annual Returns (% USD) Trailing 12 months ended 30 September

	2020	2021	2022	2023	2024
Composite — Net	—	—	—	**13.59**	**8.61**

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 outperformed the Credit Suisse Leveraged Loan Index during the quarter. From an asset class perspective, our exposure in both leveraged loans and secured bonds outperformed the index, contributing positively to relative returns. Across sectors, the largest positive contributors included our exposure in retail and technology & electronics, while security selection in media detracted.

Investing Environment

Equity market volatility increased in Q3 as investors weathered several brief but sharp selloffs. Weaker-than-expected employment reports in August and September resulted in several days of sharp declines in the S&P 500® Index that were quickly met with gains in subsequent days. The increasing weakness in the labor market reinforced investor beliefs that the Federal Reserve would reduce interest rates at its September 18 meeting, resulting in a material decline in Treasury yields; from the end of June through September 17, the yield for the 2-Year Treasury and 10-Year Treasury fell nearly 115bps and 75bps, respectively. The next day, the Fed announced a "jumbo" sized rate cut of 50bps, catching some investors by surprise as futures markets were relatively split between 25bps and 50bps. The Fed acknowledged a clear shift from inflation reduction as the number one priority to an approach recognizing "the balance of risks," with concerns over potential further weakening in the labor market contributing to its decision to reduce rates by 50bps rather than 25bps.

Against this backdrop, the leveraged loan market continued to perform and post attractive returns for investors, driven by spread tightening and coupon income. The Credit Suisse Leveraged Loan Index returned 2.1% for the quarter as discount margins tightened approximately 10bps, ending the quarter with a spread of 498bps. Lower rated loans led performance for the quarter as split B loans returned 2.7% and CCC/split CCC loans gained 2.6%. The loan asset class continues to provide value to investors through return consistency as the index notched its 9th consecutive quarter of positive returns, trending toward its 30th calendar year of positive returns in its 33-year history.

Although the equity market drawdowns were quick to recover in the quarter, we believe it is worth highlighting the resiliency of credit markets during these bouts of volatility as a reminder of the attractive role that credit can play in a portfolio. The S&P 500® Index fell 6.1% from July 31 through August 5, while high yield bonds (as measured by the ICE BofA US High Yield Index) and leveraged loans (as measured by the Credit Suisse Leveraged Loan Index) fell only 0.9% and 0.6%, respectively, over the same period. For what looked like a short bout of investor panic in the equity market turned out to be simply a "yawn" for credit investors. We have seen this dynamic time and time again as—over the long term—credit markets tend to outperform equity markets in times of stress. It's worth noting that within credit, leveraged loans in particular have demonstrated less volatility than high yield bonds. Over the past 10 years, monthly return volatility for the leveraged loan index was approximately 30% lower than the high yield bond index, with loans exhibiting considerably fewer months with negative total returns.

With the Federal Reserve embarking on a new easing cycle, we believe that leveraged loan issuers benefit disproportionately from rate cuts relative to other issuers in credit markets. Generally speaking, the loan market is lower rated than the high yield bond market with issuers that have higher leverage points. In addition, issuers of leveraged loans on average experienced more significant erosions of interest coverage over the past two years given the floating rate nature of loans relative to fixed rate bonds. As base rates decline in lockstep with monetary policy moves, we believe that interest coverage and balance sheet leverage for floating rate capital structures could improve more quickly than for fixed rate borrowers. That said, the market is beginning to anticipate fewer cuts in the forward curve based on incoming data than previously hoped; the number of market-implied future rate reductions through year-end 2025 has continued to decline in recent months. An environment of "higher for longer" may benefit leverage loan investors by keeping current coupons elevated.

The flipside of strong credit market performance year-to-date has been a further tightening of spreads and a decline in yields. However, it is worth noting that current yield levels still offer attractive return potential for credit over the medium term as evidenced by history. As of the end of September, the loan index yield was 8.2%, inclusive of the forward curve. When analyzing historical performance of the index since inception (January 1992), when the index yield is between 8% and 9%, the median annualized return 2 years forward is approximately 8%.

The primary market remains "wide open," with a flood of borrowers looking to refinance and reprice their loans, helping push out maturities. During the quarter, gross issuance for the high yield and leveraged loan markets was $74 billion and $206 billion, respectively. Notably, while net new credit creation remains low relative to history, net supply has begun to rise recently driven by a pickup in leveraged buyouts and the market's confidence that the Fed will continue to lower rates. Net issuance (non-refinancing related) in September reached a 12-month and 30-month high in bonds and loans, respectively. We continue to believe that disciplined credit investing is key to long-term performance and margins of safety should not be compromised in search of yield; we retain a high rejection rate of new issuance across our platform.

Default volumes remain low, dominated by distressed exchanges/liability management exercises rather than "hard defaults" such as missed payments or bankruptcies. Given the significant amount of refinancing and repricing that has occurred year-to-date, borrowers have extended their maturity ladder and reduced interest burdens, which we believe helps to alleviate some default risk in liquid credit markets at a broad level. In addition, the dramatic growth

in private credit markets over the past decade has enabled a risk transfer of higher credit risk borrowers from public to private credit. Historically, the only real financing source for smaller, higher leverage and ultimately riskier issuers was the syndicated debt markets. As the private credit market has become a viable alternative source of financing for these companies over the past 10 years, those smaller issuers with a higher propensity to default have seemingly eschewed the syndicated market and opted to finance through direct lenders, potentially reducing default risk in public credit.

Portfolio Positioning

The portfolio remains primarily invested in single B rated loans, with a small allocation to secured bonds. From a sector perspective, we remain heavily focused on the insurance and technology & electronics sectors, with strong conviction in the underlying business models and asset-light nature of the names we own. The portfolio holds zero exposure to energy, a sector which has become a recent source of volatility in bond markets on the back of weakness in oil prices.

We continue to emphasize discipline and prudent credit underwriting. In an environment where most new deals are "sailing" through the syndication process with ease, the importance of security selection cannot be overstated. Over the quarter, the portfolio's exposure to top 10 issuers increased from 29.6% to 31.9% while issuer count declined from 73 to 67. Unlike peers who may opt to express a view through underweighting a name relative to the benchmark, our approach is to simply not own issuers that don't meet our criteria for investment, focusing instead on constructing a portfolio of high-conviction names.

While most loan issuers have been able to access capital markets freely, there have been some instances of "indigestion" in the loan market amid the glut of new supply. We have been able to take advantage of this in the portfolio through selectively analyzing and participating in new deals that are offering compelling return potential. For example, in September we participated in the new issuance for a sporting goods manufacturer with a portfolio of well-known brands across outdoor sporting activities such as hunting and fishing. As the loan deal began to take shape, the company and its sponsor ramped up concessions by providing tremendously creditor-friendly documentation, hard call protection above par, an above-market spread and an issue price seven points below par—a rarity in the loan market, particularly in a benign economic environment. The potential for an early takeout or refinancing creates a unique convexity opportunity for this loan to outperform the broader market.

Perspective

Credit markets shook off equity market volatility during the quarter and posted attractive returns, buoyed by income returns and price gains. With three quarters of the year complete, the leveraged loan market is trending toward a full-year return in line with its attractive yield level at the beginning of the year, providing compelling value to a diversified portfolio. Though spreads have tightened, the current entry point for loan yields remain attractive relative to history.

Nevertheless, in a time of "wide open" capital markets, tighter credit spreads and a rise in distressed exchanges, the value of active management has never been more important. Discipline and vigilance remain core tenets of our philosophy as we continue to guide the portfolio through the current cycle. Our number one focus remains on avoidance of capital impairment while identifying unique, idiosyncratic opportunities to deploy capital at above-market coupons and attractive discounts to par, endeavoring to achieve compelling risk-adjusted returns for our investors.

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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. 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. 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. ICE BofA US High Yield Index measures the performance of below investment grade US dollar-denominated corporate bonds publicly issued in the US market. ICE BofA US Broad Market Index tracks the performance of US dollar-denominated investment grade debt publicly issued in the US domestic market, including US Treasury, quasi-government, corporate, securitized and collateralized securities. With the exception of local currency sovereign debt, qualifying securities must have an investment grade rating (based on an average of Moody's, S&P and Fitch). S&P 500® Index measures the performance of 500 US companies focused on the large-cap sector of the 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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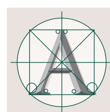
A R T I S A N  P A R T N E R S