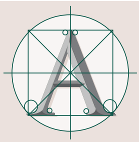

Artisan Floating Rate Strategy

QUARTERLY
Commentary

As of 31 December 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 31 December 2024	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception[1]
			Average Annual Total Returns				
Composite — Gross	**2.22**	**8.78**	**8.78**	**7.44**	**—**	**—**	**7.44**
Composite — Net	**2.05**	**8.05**	**8.05**	**6.71**	**—**	**—**	**6.71**
S&P UBS Leveraged Loan Index	2.29	9.05	9.05	6.84	—	—	6.84

Calendar Year Returns (% USD)

	2020	2021	2022	2023	2024
Composite — Net	**—**	**—**	**-1.48**	**14.17**	**8.05**

Source: Artisan Partners/S&P. 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 underperformed the S&P UBS Leveraged Loan Index during the quarter. By rating, the portfolio benefited from security selection in B- and CCC-rated credits, while our overweight to CCC-rated debt detracted from returns. Across sectors, the largest positive contributors included security selection in retail and technology & electronics, while security selection within leisure detracted from returns.

Investing Environment

In a stark reversal of Q3, Treasury yields rose significantly across the curve as investors recalibrated interest rate expectations following the US elections, hawkish Federal Reserve commentary amid persistent inflation readings and a continued strong economic environment. During the quarter, the 10-year Treasury yield rose 79bps and erased its entire decline from Q3—ending the year close to its peak for 2024. In addition, the yield curve continued to steepen as the 2–10 spread rose 20bps with the yield curve ending the year at its steepest point since May 2022. All told, the 10-year Treasury yield ended the year up 95bps from its low in September, creating a volatile environment for duration-sensitive assets.

Against this backdrop, the loan market continued to generate positive returns in Q4, ending 2024 with full-year returns of nearly double digits. The S&P UBS Leveraged Loan Index returned 2.3% for the quarter and 9.1% for the year, aided by attractive coupon income and price gains. The loan index registered positive returns for each month of 2024 and provided a stable base of return in a year with high interest rate-driven volatility negatively impacting fixed rate investments. In addition, the index provided its 30th year of positive calendar year returns in its 33rd year of existence. The average price of the loan index rose over a full point during the year with coupon spreads remaining relatively flat (down 22bps) on the back of continued positive technicals (low net issuance) and repricings.

As leveraged loans continue to generate consistent coupon income with low volatility, it's worth putting into context their attractive relative and risk-adjusted returns across both recent and longer term periods. On a trailing 1-, 3-, 5- and 10-year basis, the S&P UBS Leveraged Loan Index has outperformed both the ICE BofA US High Yield Index and the ICE BofA US Broad Market Index (a reference for the investment grade bond universe). In each of those periods, the loan index's return per unit of volatility (standard deviation) was significantly higher than its fixed rate counterparts. In addition, the low correlation of the loan index to investment grade bonds (such as Treasurys, mortgage-backed securities and corporates) during this period provided a valuable complement to traditional asset allocations that may be more heavily dominated by fixed rate assets. It's not often that you can find a diversifying asset with compelling absolute and risk-adjusted return potential, but investors have found these characteristics in loans over the past 10 years.

One of the most notable themes in credit markets in 2024 was the robustness of capital markets activity. On a gross supply basis, high yield issuance increased more than 60% year-over-year while leveraged loans recorded their highest annual issuance ever, significantly surpassing previous peaks in 2021 and 2017. Many issuers took advantage of more favorable market pricing and positive technicals to refinance and reprice their debt, extending maturities and achieving interest cost savings, thus reducing credit risk. Nevertheless, as we have discussed in the past, net issuance—gross supply minus refinancings and repricings—remains low, driven by an M&A market that is still depressed relative to 2021. We believe that M&A will likely rebound in 2025 driven by a more pro-business administration, less restrictive Federal Trade Commission (FTC) approval process and deregulatory environment, which could create more net supply for our market. This dynamic may also result in increased interest from higher credit quality strategic buyers to acquire leveraged companies, introducing opportunities for investors to reap benefits as discounted debt of an acquisition target could reprice to par or above.

Excluding distressed exchanges, default rates in high yield and loans have been declining since early 2023 and are well below long-term averages. The most significant increase in headline defaults in 2024 came in the form of liability management exercises, or LMEs. While the frequency of mentions of "creditor-on-creditor violence" in the financial press seems to imply that LMEs are ubiquitous, in reality they continue to represent a very small part of the market. For example, according to JP Morgan data, 48 companies completed a distressed exchange in 2024; in total, there are estimated to be over 1,800 companies across leveraged credit markets. We continue to monitor this space and selectively participate across our platform. Often, the threat of an LME results in downward pressure on asset prices through secondary market selling. Our team has experience spanning the gamut from performing to distressed, enabling us to dig in deep on heavily discounted assets to potentially find value.

Portfolio Positioning

The portfolio remains invested primarily in single B-rated loans, with a small allocation to high yield bonds. Owing to our philosophy centered around high-conviction investing, the top 10 issuers represented approximately 30% of the portfolio at the end of the year. It's worth noting that cash was relatively elevated at quarter-end following inflows near the end of December. We were comfortable holding a higher than average cash balance with an eye toward deploying in early January.

Credit discipline remains a critical part of our process. With a large amount of the loan market trading near par today, we believe that protection against permanent capital impairment is of the utmost importance. Our selectivity in 2024 is a testament to this fact; over 1,100 loan deals came to market in 2024, including repricings,

refinancings and net new supply. We participated in only 54 of them, rejecting 95% of the new deals in the primary market. We believe this discipline is particularly important in an environment where many issuers have repriced deals significantly tighter, thereby reducing return potential to lenders. We witnessed many repricings in the market where we may have previously invested at wider spreads but declined to participate in the new deal, as we felt we were not properly compensated for the risk of the underlying issuer.

In Q4, our most significant addition was in a specialty foods manufacturer with a portfolio of protein and fitness bar brands. We purchased the S+500 first lien loans at new issue with a 94.5 original issue discount (OID) and creditor friendly documentation—a relative rarity in today's loan market. We became comfortable with the business following extensive due diligence and calls with senior management. Given structured call protection above par, our portfolio would reap the benefits of price appreciation if the debt is refinanced prior to maturity. In the interim, we believe the debt offers compelling risk-adjusted return potential for an already quality business that may benefit from a trend toward higher protein diets amid the increasing proliferation of GLP-1s.

Perspective

The leveraged loan market performed well in 2024, with elevated all-in yields and modest price gains helping to produce returns near double digits. Loans outperformed most fixed income asset classes during the year aided by their lack of interest rate sensitivity as well as higher coupon income. While leveraged credit markets continue to trade at tighter spread levels, we believe they will likely be rangebound in the near term absent an exogenous shock. In addition, current yield levels for leveraged loans offer what we believe to be compelling risk-adjusted total return potential and a valuable complement to asset allocations.

As we look forward to 2025, there remain pockets of idiosyncratic value in the loan market which we seek to take advantage of in our portfolio. We continue to believe that an investment approach centered on business quality, fundamental issuer strength and high-conviction portfolio construction is of utmost importance in today's market. As our investors know, we will never sacrifice credit discipline for the sake of chasing yields and returns.

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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. This is a marketing communication.

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.

S&P UBS Leveraged Loan Index is an unmanaged market value-weighted index designed to mirror the investable universe of the US dollar-denominated leveraged loan market. Loan facilities must be rated "BB" or lower by S&P, Moody's or Fitch; 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). 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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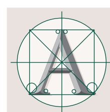
A R T I S A N  P A R T N E R S