



Artisan Floating Rate Strategy

QUARTERLY
Commentary

As of 31 March 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 March 2024	Average Annual Total Returns						
	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception ¹
Composite — Gross	2.52	2.52	13.81	—	—	—	7.19
Composite — Net	2.35	2.35	13.04	—	—	—	6.46
Credit Suisse Leveraged Loan Index	2.52	2.52	12.40	—	—	—	6.28

Annual Returns (% USD) Trailing 12 months ended 31 March

	2020	2021	2022	2023	2024
Composite — Net	—	—	—	2.51	13.04

Source: Artisan Partners/Credit Suisse. Returns for periods less than one year are not annualized. ¹Composite 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 Credit Suisse Leveraged Loan Index during the quarter. Our allocations to cash and secured bonds detracted from returns, slightly offset by positive attribution effects within our bank loan segment. By credit quality, our overweight to CCC-rated credit was the most notable positive contributor, while security selection within B-rated credits detracted from returns. Across sectors, security selection in services was the most significant positive contributor, continuing the trend seen across our portfolio in 2023.

Investing Environment

The first quarter saw considerable volatility in interest rates across the curve. Leveraged loans once again proved to be a valuable asset class to own within a diversified portfolio, significantly outperforming fixed-rate bonds. The Credit Suisse Leveraged Loan Index gained 2.5% for the quarter, outperforming high yield bonds (as measured by the ICE BofA US High Yield Index) by more than 1.0% and investment grade bonds (as measured by the ICE BofA US Broad Market Index) by more than 3.0%.

Entering 2024, the market narrative was one of exuberance surrounding the potential for near-term interest rate cuts by the Federal Reserve. At year-end, the futures market was pricing between six and seven rate cuts by the end of 2024, resulting in a forward curve that expected the fed funds rate to decline over 150bps and fall below 4% from the existing target of 5.25%–5.50%. As the quarter progressed, markets began to digest the potential for elevated “sticky” inflation readings amid a resilient economy, which continues to surprise on the upside across multiple factors including the labor market and housing. A selloff in Treasury rates ensued, picking up steam in February as the 2-Year and 10-Year Treasury rates rose 37bps and 32bps, respectively, by quarter-end. All told, market expectations for rate cuts in 2024 had been essentially cut in half from the beginning of the year, reminding investors that the market on the whole has historically struggled to accurately predict the path of interest rates in the short term.

While Treasury rates rose, resilient economic data helped propel a continued rally in credit spreads. At the loan index level, discount margins declined 19bps to end the quarter at 509bps, with spread declines led by CCC-rated debt, which materially outperformed the broader market. Although discount margins have sharply compressed since the end of 2022, they remain wider than their recent lows in 2021 prior to the start of the Federal Reserve tightening cycle. In addition, while CCC loans have been leading the loan market rally over the past year, discount margins in this segment are still over 400bps higher than June 2021. The elevated spread level and dispersion among lower rated loans creates opportunities for managers like us who seek to exploit embedded inefficiencies in the CCC-rated segment and identify credits where we believe the potential reward is greater than the market-implied risk.

In the intermediate term, a “higher for longer” environment benefits investors in leveraged loans as coupons remain elevated and the forward curve reprices. For example, despite spreads declining and the index price rising during the quarter, the yield on the index rose roughly 30bps to 9.30%. In our view, the opportunity to generate high-single-digit returns from generally senior secured assets is very attractive, particularly in an environment where equity market performance is increasingly dominated by a smaller number of companies.

The primary market was wide open in Q1, as companies began to take advantage of the significant decline in all-in borrowing costs. Leveraged loans priced over \$317 billion, the largest quarter of issuance since 2017. However, continuing a trend seen in 2023, the majority of issuance continues to be refinancing and repricing oriented. Net new credit creation continues to be limited as loan index par values (amount of debt outstanding) remain below the recent peak seen in 2022. The significant level of refinancing has also helped to extend the maturity wall in credit markets. At the end of Q4, roughly 22% of the loan market was set to mature by 2026; as of March, this has been reduced to 18%, with the majority of the loan market now set to mature in 2027, 2028 and 2029.

On a year-over-year basis relative to Q1 2023, default volumes for the quarter declined. Excluding distressed exchanges, the par-weighted default rate for bonds and loans ended the month at 1.68% and 1.86%, respectively. Given the strength of credit markets year-to-date, the volume of loans trading at “distressed” levels (priced below \$80) fell to approximately 5%. The industries with the largest amount of distressed loans included health care, technology and telecommunications.

Portfolio Positioning

Commensurate with a strong primary market, our team has been highly active yet incredibly selective year-to-date. Over 340 loan deals came to the market in Q1; we participated in only 17, a rejection rate of over 95%. This aligns well with our general philosophy that the optimal way to construct loan portfolios is through thoughtful and deliberate concentration, focusing on issuers with resilient business models and attractive credit characteristics at valuations we deem prudent.

Our discipline amid the strong primary market is best evidenced by our selectivity in participating in portfolio refinancings. For example, auto repair retailer Service King announced a refinancing during the quarter to retire its existing payment-in-kind (PIK) term loan, which we held a roughly 0.8% weight in at year-end. After reviewing deal terms of the refinancing, we chose not to participate, as we felt the new loan was priced at a lower spread inconsistent with our view of the overall risk embedded in the business. The refinancing gave us the ability to exit the credit above par, courtesy of a special call feature, while

allowing us to wait for a better entry point should the credit become dislocated in the future.

At a headline level, the average price of our portfolio was \$96.4 as of the end of March. Though the discount to par has compressed over the past year in combination with strong market performance, the average price of our portfolio remains several points below early 2022 levels offering additional return potential through convexity. Our portfolio yield-to-maturity increased over the quarter as we deployed cash. It's worth noting that the yield incorporates the forward curve, which is currently downward sloping. As we have previously discussed, markets are generally poor predictors of the path of interest rates; should investor sentiment continue to switch from rate cuts to "no cuts," yields could be adjusted further upward.

Our cash level declined nearly 4% during the quarter as we thoughtfully deployed capital into a select number of new names. The portfolio's allocation to fixed rate debt declined marginally to less than 5% of the portfolio—as a reminder, the majority of our bond allocation is senior secured/first lien, offering us the ability to upsize exposure to a particular issuer across its capital structure or to gain access to an issuer we favor that wouldn't normally be accessible in a loan-only construct.

By credit quality, the majority of our portfolio is invested in B-rated loans. Although we have an overweight in CCC-rated loans as compared to loan benchmarks, we remain highly selective in this space. The CCC component of the Credit Suisse Leveraged Loan Index contains 147 total issuers; we hold only 10 names rated CCC, emphasizing our own due diligence in determining business quality rather than relying on rating agency views.

From a sector perspective, we materially increased our exposure to insurance brokerage over the quarter. For those who understand our philosophy and process, our continued emphasis and overweight to this segment should be of no surprise. These businesses offer tremendous cash flow generation ability aided by a high degree of recurring revenue; we estimate nearly 90% of revenue is recurring annually across the insurance brokerage space, with renewals often non-discretionary and driven by regulatory requirements. Additionally, the broader insurance sector remains in a "hard" market, providing a modest pricing tailwind to our brokers. Yet, many of these businesses continue to be rated B or CCC by rating agencies, resulting in what we believe to be attractively mis-priced and mis-rated assets from a risk-adjusted return perspective. As of quarter-end, the portfolio held approximately 22% in the insurance sector overall, with the majority of exposure invested in insurance brokers.

Perspective

The exuberance surrounding potential rate cuts at the beginning of the year has been met with the reality of a strong economy, resilient job market and persistent inflation elevated above the Fed's preferred level. Markets appear to be repricing Fed policy moves on a daily basis, contributing to elevated volatility in interest rates as the 10-Year

Treasury rate has nearly "round-tripped" from its significant decline in November and December.

Against this backdrop, we continue to view leveraged loans as an attractive asset class. The ability to potentially generate high-single-digit returns driven primarily by income—rather than duration or equity market sentiment—offers significant benefits to a diversified portfolio that is heavily allocated to longer duration investment grade bonds and public equity markets. While dispersion has undoubtedly declined from 2022 levels, we continue to find pockets of the market to deploy capital in assets with attractive credit characteristics and risk-adjusted return potential, such as insurance brokers.

As we guide the portfolio through a period of tight spreads and accommodative capital markets, the importance of business quality and credit fundamentals is abundantly clear. We remain intensely focused on allocating to issuers with credit fundamentals we favor, maintaining our selectivity as companies take advantage of a wide-open primary market to fund their businesses. Ultimately, the success of generating high-single-digit returns in today's credit market is driven by credit selection and default aversion—or, "winning by not losing."

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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). 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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