



Artisan Floating Rate Fund

QUARTERLY
Commentary

Investor Class: ARTUX | Advisor Class: APDUX | Institutional Class: APHUX

As of 31 December 2023

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 (%)

As of 31 December 2023	Average Annual Total Returns						
	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception
Investor Class: ARTUX	2.47	13.57	13.57	—	—	—	5.11
Advisor Class: APDUX	2.50	13.69	13.69	—	—	—	5.22
Institutional Class: APHUX	2.41	13.63	13.63	—	—	—	5.21
Credit Suisse Leveraged Loan Index	2.85	13.04	13.04	—	—	—	5.83

Source: Artisan Partners/Credit Suisse. Returns for periods less than one year are not annualized. Class inception: Investor (1 December 2021); Advisor (1 December 2021); Institutional (1 December 2021).

Expense Ratios (% Gross/Net)	ARTUX	APDUX	APHUX
Annual Report 30 Sep 2023 ^{1,2}	2.74/1.20	1.57/1.10	1.36/1.05
Prospectus 30 Sep 2022 ^{1,2}	7.22/1.23	1.64/1.13	1.29/1.07

¹Net expenses reflect a contractual expense limitation agreement in effect through 31 Jan 2025. ²See prospectus for further details.

Past performance does not guarantee and is not a reliable indicator of future results. Investment returns and principal values will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than that shown. Call 800.344.1770 for current to most recent month-end performance. The performance information shown does not reflect the deduction of a 2% redemption fee on shares held by an investor for 90 days or less and, if reflected, the fee would reduce the performance quoted.



Performance Discussion

Our portfolio marginally underperformed the Credit Suisse Leveraged Loan Index during the quarter. Positive contributions from our allocation to secured high yield bonds were offset by modestly negative security selection in loans. For the year, security selection in loans was our largest contributor, consistent with our expectations and helping to propel our portfolio to outperformance in 2023. Across sectors, positive selection in financial services and capital goods was offset by our allocations to services and technology. For the year, services was our largest relative contributor from a sector perspective, driven by strong security selection.

Investing Environment

Leveraged loans (as measured by the Credit Suisse Leveraged Loan Index) posted solid gains of 2.9% for the quarter, closing the year with total returns of more than 13%. The 2023 return was historically impressive for the loan market, notching its best return since 2009 and second-best return since inception of the index in 1992. In addition, the pattern of returns continued to provide support for the diversification benefits of loans; while fixed rate assets struggled during the first nine months of 2023, leveraged loans performed strongly, benefiting as floating rate securities repriced to higher yields in lockstep with increasing base rates.

While the quarterly return was impressive, the nominal return masks the intra-quarter volatility experienced by investors across markets. October featured a sharp move higher in rates and spreads, as markets reacted negatively to Fed rhetoric and geopolitical tensions in the Middle East. This narrative flipped quickly in November and December as slowing inflation prints, a moderating but healthy job market, and a strong dovish market perception of the Fed's December meeting led to the growing "soft landing" narrative. Broader markets responded by recouping October losses quickly, with the 10-year Treasury erasing nearly all of the rate move upward during the year. Meanwhile, leveraged loan markets provided positive total returns each month during the quarter, a valuable ballast in a diversified portfolio.

From a spread perspective, loan markets tightened during the quarter led by the market's positive risk sentiment in November and December. At the broad market level, the discount margin for the CS Leveraged Loan Index tightened 23bps. Despite tightening nearly 125bps during the year, discount margins for loans remain above levels in 2021. Coupled with yields in excess of 9% and an average price of \$95.3, the loan market remains an attractive option for investors to potentially earn high-single-digit income returns with additional convexity through price appreciation.

New issuance finished the year with a strong quarter, contributing to issuance levels in 2023 exceeding 2022's historically low amount. Leveraged loan issuance totaled more than \$370 billion, a 47% increase from 2022. However, the majority of issuance continues to be refinancing and repricing related. Excluding refinancing, 2023

issuance in loans declined nearly 50% year-over-year, driven by M&A and Leveraged buyout (LBO) activity that remains well below 2020 and 2021 levels. This lack of new credit supply continues to create a positive tailwind for pricing, as maturities and coupons are recycled into a shrinking asset base.

Excluding distressed exchanges, the par-weighted default rate for loans was 2.1% at year end. While this is an increase from the exceptionally low levels in 2021 and 2022, default rates are near long-term averages. Broader leveraged loan fundamentals remain strong, supported by resilient corporate profitability, attractive interest coverage ratios and reasonable leverage levels compared to history. Defaults continue to be idiosyncratic in nature, driven by firms with unsustainable capital structures. The market's outlook on potential future defaults has improved, with the amount of loans trading below a price of \$80 declining from a peak of 6.3% in June, ending the year at 5.0%.

Given the aforementioned lack of LBOs and M&A activity, we continue to observe the dynamic of private credit lenders refinancing syndicated credit, positively impacting our market. Throughout 2023, over \$20 billion of syndicated loans were refinanced by private credit. Often, syndicated markets viewed these issuers with a healthy degree of skepticism on their ability to service and repay, as evidenced by market pricing below par. This risk transfer into private markets—or what we refer to as "one man's trash is another man's treasure"—has benefited the broadly syndicated loan market by removing generally lower quality, potential future default candidates. As demand continues to outweigh supply in private credit markets, we anticipate this trend to continue and ultimately be a positive tailwind, reducing a portion of the long-term default risk in our market.

Portfolio Positioning

We continue to believe that careful and deliberate portfolio construction with a higher level of concentration—helping to avoid defaults and permanent capital impairment—will ultimately benefit investors over time. As of year end, we held 57 issuers with the top 10 representing 35% of our portfolio. The average loan portfolio in the market holds hundreds of line items, putting managers at risk for credit events that bubble up if there is only a surface level of underwriting and often providing an underwhelming level of long-term performance.

Despite a significant rally in the loan market during 2023, our portfolio remains at a discount to par with an average price of \$95.6 at year end. This discount to par provides a powerful convexity effect as loans shorten in on the maturity curve. This convexity effect can provide additional return to coupon income particularly if issuers refinance prior to maturity, providing the potential for double-digit total returns in an asset class with high-single-digit yields.

Defaults within loan markets continue to be dominated by the health care and media/telecom sectors. Over the past two years, we have

been underweight health care by design, as we disagreed with the market consensus that health care is “defensive” given our observations that the sector contains a large number of unattractive and overlevered capital structures. During the quarter, we added exposure to two names in health care that we have high conviction in—Surgery Center and GoodRx—as we believe these credits offer attractive risk-adjusted returns and represent quality businesses that are good for the system, consumers and viewed favorably by regulators.

Our flexible approach continues to allow us to construct portfolios materially different than peers. This is particularly evident in our allocations across issue sizes. Generally, smaller issue size paper offers an illiquidity premium to larger paper, allowing skilled managers the ability to add additional return to the portfolio. We remain heavily underweight the \$2+ billion issue size market relative to both index and peers, while overweighting the less than \$1 billion issue size market, where we see better value and more idiosyncratic dispersion.

The portfolio remains substantially first-lien, floating rate loans in the single-B ratings category and exclusively US focused. Cash remains elevated but with little opportunity cost as our portfolio’s yield to maturity still exceeds that of the index. We remain comfortable with our cash balance, with a goal to spend down cash as opportunities present themselves in the primary and secondary market.

While sector exposures remained relatively stable over the quarter, the top 10 exposures shifted as we identified a number of attractive opportunities. The most notable addition to the top 10 list was Delta Topco Inc (Infoblox), whose weighting increased from 2% to 5% during the quarter. The company is a leading provider of cybersecurity and network solutions to firms across the globe, with products ranging from cloud-managed DDI to advanced DDoS protection services. The business represents many of the qualities we look for in evaluating companies: attractive client retention rates, strong pricing power, high margins and scalability, mission-critical software products and meaningful whitespace for growth across channels. The business has materially deleveraged over the past year, and we expect this will continue, as the business has shortened contract durations to provide more immediate revenue “step ups.” At a greater than 9% yield to maturity, we view the credit as particularly attractive from a risk-adjusted return perspective.

Perspective

Coming into 2023, a growing chorus of market participants believed a recession was imminent, as the Federal Reserve had embarked on its most ambitious tightening campaign in decades. Credit markets responded by defying expectations, with leveraged loans and high yield bonds and returning their best calendar years since 2009 and 2019, respectively. A combination of solid corporate fundamentals, better-than-expected economic data and slowing inflation ignited a rally in spreads throughout the year, with lower quality credit significantly outperforming.

Despite a significant tightening in spreads over the year, credit dispersion remains under the surface, particularly in smaller issue size and perceived lower quality segments of the market. We believe this environment continues to provide ample opportunity for selective “credit pickers,” focusing on uncovering opportunities through rigorous fundamental due diligence. In addition, absolute yield levels for the asset class remain elevated compared to yields during the decade after the global financial crisis, with both loans and bonds providing the potential for high-single-digit returns.

We remain cognizant of any deterioration in business fundamentals as companies refinance debt and continue to operate in a higher interest rate regime. We expect defaults to continue to increase from the historically low levels of 2021, though market structure changes—such as the risk transfer of more challenged borrowers to the private credit market—help increase the quality of the underlying borrower base. Overall, as we enter an uncertain 2024, we view the asset class as a valuable constituent of a diversified portfolio and remain steadfastly focused on outperformance through our high-conviction and flexible approach.

ARTISAN CANVAS

Timely insights and updates from our investment teams and firm leadership

Visit www.artisancanvas.com

For more information: Visit www.artisanpartners.com | Call 800.344.1770

Carefully consider the Fund's investment objective, risks and charges and expenses. This and other important information is contained in the Fund's prospectus and summary prospectus, which can be obtained by calling 800.344.1770. Read carefully before investing.

Current and future portfolio holdings are subject to risk. The value of portfolio securities selected by the investment team may rise or fall in response to company, market, economic, political, regulatory or other news, at times greater than the market or benchmark index. A portfolio's environmental, social and governance ("ESG") considerations may limit the investment opportunities available and, as a result, the portfolio may forgo certain investment opportunities and underperform portfolios that do not consider ESG factors. 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.

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 managers as of 31 Dec 2023. Those views may change, and the Fund disclaims any obligation to advise investors of such changes. For the purpose of determining the Fund's holdings, securities of the same issuer are aggregated to determine the weight in the Fund. These holdings comprise the following percentages of the Fund's total net assets (including all classes of shares) as of 31 Dec 2023: Delta Topco Inc 5.0%; Surgery Center 2.6%; GoodRx 1.8%. Securities named in the Commentary, but not listed here are not held in the Fund as of the date of this report. Portfolio holdings are subject to change without notice and are not intended as recommendations of individual securities. All information in this report, unless otherwise indicated, includes all classes of shares (except performance and expense ratio information) and is as of the date shown in the upper right hand corner. Portfolio statistics include accrued interest unless otherwise stated and may vary from the official books and records of the Fund. This material does not constitute investment advice.

Attribution is used to evaluate the investment management decisions which affected the portfolio's performance when compared to a benchmark index. Contribution to return is calculated by Bloomberg by multiplying a security's daily total return multiplied by the daily weight compounded over the referenced timeframe and does not take into account expenses of the portfolio. Attribution is not exact, but should be considered an approximation of the relative contribution of each of the factors considered.

This material is provided for informational purposes without regard to your particular investment needs and shall not be construed as investment or tax advice on which you may rely for your investment decisions. Investors should consult their financial and tax adviser before making investments in order to determine the appropriateness of any investment product discussed herein.

Credit Quality ratings are determined by Artisan Partners based on ratings from S&P and/or Moody's, which typically range from AAA (highest) to D (lowest). For securities rated by both S&P and Moody's, the higher of the two ratings was used, and those not rated by either agency have been categorized as Unrated/Not Rated. Ratings are applicable to the underlying portfolio securities, but not the portfolio itself, and are subject to change. **Non-Investment Grade** refers to fixed income securities with lower credit quality. **Par-weighted Default Rate** represents the total dollar volume of defaulted securities compared to the total face amount of securities outstanding that could have defaulted. **Credit spread** is the difference between the quoted rates of return on two different investments, usually of different credit qualities but similar maturities. **Interest coverage ratio** is a financial ratio measuring a company's ability to make interest payments on its debt calculated as earnings before interest and taxes divided by total interest expense. **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 maturity (YTM)** is the total return anticipated on fixed income securities if the securities are held until maturity. **Par** represents the level a security trades at when its yield equals its coupon. **Leveraged Buyout (LBO)** is the acquisition of another company using a significant amount of borrowed money to meet the cost of acquisition.

Artisan Partners Funds offered through Artisan Partners Distributors LLC (APDLLC), member FINRA. APDLLC is a wholly owned broker/dealer subsidiary of Artisan Partners Holdings LP. Artisan Partners Limited Partnership, an investment advisory firm and adviser to Artisan Partners Funds, is wholly owned by Artisan Partners Holdings LP.

© 2024 Artisan Partners. All rights reserved.

