

The Case for Leveraged Loans

Over the last 15 years, leveraged loans, also known as bank loans or senior secured credits, have emerged as a growing and integral piece of leveraged finance. The asset class, which is commonly used to finance mergers and acquisitions among below investment grade companies, has grown to represent over 1,500 issuers and rivals the high yield bond market in size. At more than \$1.3 trillion, the asset class has become a mainstream investment solution for institutional and retail investors due to its unique characteristics that help mitigate the risk of rising rates while historically providing a high current income and differentiated return stream that helps diversify investors' existing fixed income portfolio.

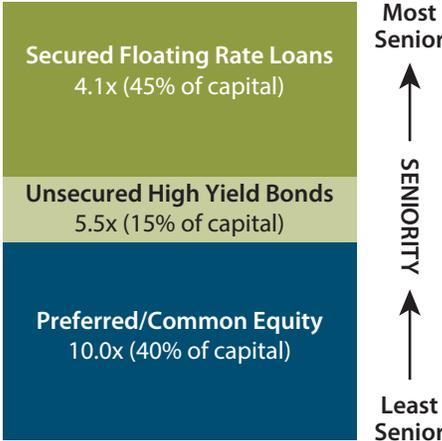
Reduced Credit Risk

Since leveraged loans are typically issued by below-investment grade companies, there is a higher risk the borrower may be unable to make interest and principal payments. But relative to subordinated debt like high yield bonds, this risk is somewhat mitigated by their senior status in a company's capital structure. Leveraged loans typically hold the first lien on a company's assets in the event of default, meaning they are first in line to be repaid. Similarly, leveraged loans are often secured by collateral like property, plant and equipment or intangible assets like intellectual property and patents. These features combine to reduce the risk of default, improve recovery rates and minimize price volatility versus other parts of the capital structure.

High Yield Potential

Returns for traditional fixed income investments are explained predominantly by interest rates. But for leveraged loans, returns are typically explained by credit risk, which compensates investors for the relatively higher risk that a borrower could default. In today's low interest rate environment, generating positive real yields remains a persistent challenge and leveraged loans are a possible solution in helping investors meet their income goals. Today, leveraged loans are among highest yielding asset classes on an absolute and risk-adjusted basis.

Illustrative Capital Structure



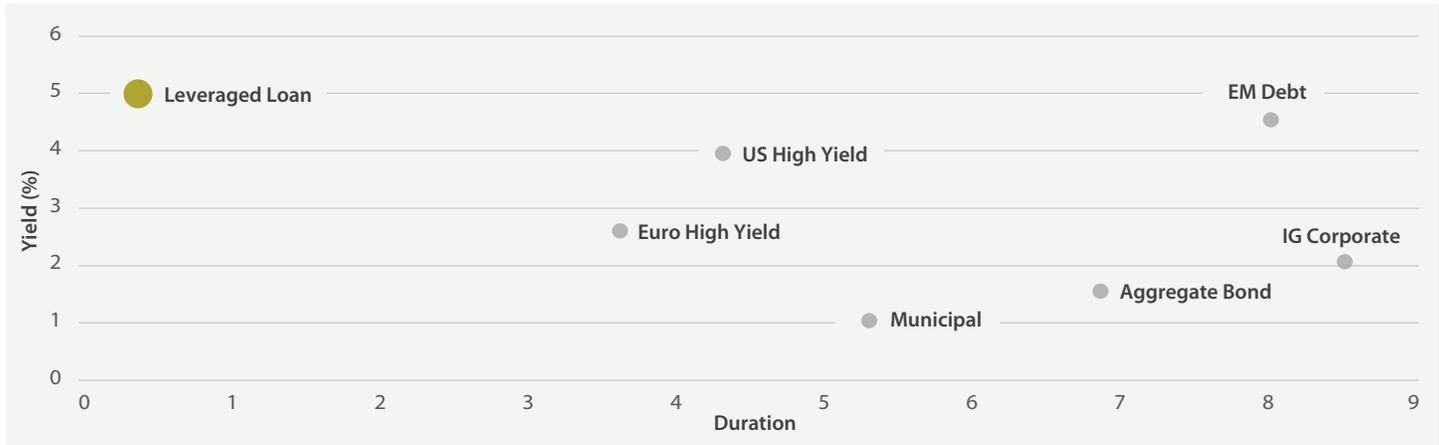
Source: Artisan Partners. This is a hypothetical capture structure for illustrative purposes only.

Leveraged Loans Provides Some of the Highest Absolute and Risk-Adjusted Yields

Asset Class Yield and Volatility

	Leveraged Loans	High Yield Bonds	Aggregate Bond	IG Corporates	Emerging Market Debt	Euro HY	Municipal Bonds
Current Yield (%)	5.0	4.0	1.6	2.1	4.5	2.6	1.0
10 Yr Standard Deviation (%)	5.1	6.8	3.0	5.1	7.9	12.0	3.6

Asset Class Yield and Duration



Source: Artisan Partners/ICE BofA/JPMorgan/Credit Suisse. As of 30 Sep 2021. Standard deviation based on monthly returns. Indices—US Leveraged Loans: Credit Suisse Leveraged Loan Index; US High Yield: ICE BofA US High Yield Index; EM Debt: JPMorgan EMBI Global Diversified Index; European High Yield: ICE BofA Euro High Yield Index; IG Corporate: ICE BofA US Corporate Bond Index. Past Performance is not reliable indicator of future results.

THE CASE FOR LEVERAGED LOANS

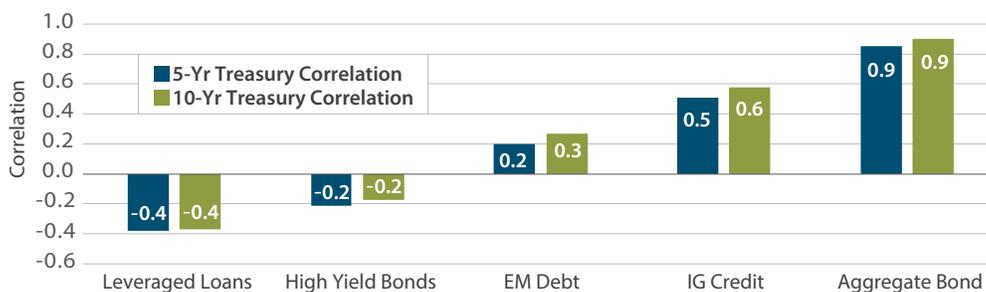
Interest Rate Protection

Rising interest rates often lead to headwinds for traditional fixed income investments—as interest rates rise, the prices for fixed-rate bonds decline—but leveraged loans behave differently and are one of the few fixed income segments that stand to benefit from a rising rate environment. Unlike bonds that pay a fixed-rate coupon, the yields on leveraged loans adjust quarterly with short-term benchmark interest rates (like LIBOR or SOFR). This means that as interest rates rise, so do the yields on leverage loans. During rising rate environments, this floating-rate feature has helped the asset class generate strong positive returns while traditional fixed-rate bonds have lagged.

Similarly, leveraged loans offer a potential hedge against inflation because of this floating-rate feature. As inflation increases, central banks' preferred method of managing this risk is through higher interest rates. Because leveraged loan yields move upwards along with key benchmark interest rates, they're less likely to be impacted by higher inflation relative to traditional fixed income segments.

Leveraged Loans Are Among the Best Hedges to Rising Interest Rates

20-Year Asset Class Correlation with Treasuries



Source: Artisan Partners/ICE BofA/Credit Suisse/Bloomberg. Based on monthly returns for the Bloomberg Aggregate Bond Index (Aggregate Bond), ICE BofA US Corporate Index (IG Credit), ICE BofA US High Yield Index (High Yield), Credit Suisse Leveraged Loan Index (Leveraged Loans) and JPM EMBI Global Diversified Index (EM Debt). Past Performance is not reliable indicator of future results.

Enhanced Portfolio Diversification

Leveraged loans' unique characteristics—floating-rate coupons, high current income and capital structure seniority—translate into lower correlation relative to other asset classes, like investment grade bonds, emerging market debt, structured securities and even equities. Incorporating different, uncorrelated risk factors into a portfolio increases portfolio diversification and potentially leads to better risk-adjusted returns. As a result, incorporating an allocation to leveraged loans within a traditional fixed income portfolio has historically shown to reduce portfolio volatility and enhanced returns through a market cycle.*

*As of 30 September 2021. Based on monthly returns over the trailing 15 years. Portfolio of 20% Credit Suisse Leveraged Loan Index / 80% Bloomberg US Aggregate Bond Index increases returns and reduces volatility relative to a portfolio of 100% Bloomberg US Aggregate Bond Index.

Low Correlations Improve Fixed Income Diversification

20-Year Correlation

	US Stocks	Aggregate Bond	Leveraged Loans	High Yield Bonds	EM Debt
US Stocks	100%	-3.3%	56.8%	69.5%	55.4%
Aggregate Bond		100%	-1.2%	23.2%	55.1%
Leveraged Loans			100%	82.8%	57.1%
High Yield Bonds				100%	77.2%
EM Debt					100%

Source: Artisan Partners/S&P/ICE BofA/Credit Suisse/JPMorgan/Bloomberg. Based on monthly returns for the S&P 500® Index (US Stocks), Bloomberg Aggregate Bond Index (Aggregate Bond), ICE BofA US High Yield Index (High Yield), Credit Suisse Leveraged Loan Index (Leveraged Loans) and JPM EMBI Global Diversified Index (EM Debt). Data presents the trailing monthly returns over the trailing 20-year period. Diversification does not ensure profit or protect against loss. Past Performance is not reliable indicator of future results.

During rising rate environments, this floating-rate feature has helped the asset class generate strong positive returns while traditional fixed-rate bonds have lagged.



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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. 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. The use of derivatives in a portfolio 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 markets.

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LIBOR is the benchmark interest rate at which major global banks lend to one another and is administered by the Intercontinental Exchange, which asks major global banks how much they would charge other banks for short-term loans. **Seniority** refers to the order of repayment to security holders in the case of a default by the issuing corporation. **Duration** is a measure of the sensitivity of the price of a bond or other debt instrument to a change in interest rates. **Secured Overnight Financing Rate (SOFR)** is a secured interbank overnight interest rate and reference rate established as an alternative to LIBOR, which is published in a number of currencies and underpins financial contracts all over the world.

Credit Suisse Leveraged Loan Index (CSLLI) is designed to mirror the investable universe of the \$US denominated leveraged loan market. **ICE BofA US High Yield Index** measures the performance of below investment grade \$US-denominated corporate bonds publicly issued in the US market. **ICE BofA Euro High Yield Index** tracks the performance of Euro denominated below investment grade corporate debt publicly issued in the euro domestic or eurobond markets. **J.P. Morgan Emerging Markets Bond Global Diversified Index** tracks total returns for U.S. dollar denominated debt instruments issued by emerging market sovereign and quasi-sovereign entities. **ICE BofA US Corporate Index** tracks the performance of US dollar denominated investment grade corporate debt publicly issued in the US domestic market. The indexes are unmanaged; include net reinvested dividends; do not reflect fees or expenses; and are not available for direct investment.

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