# Artisan Floating Rate Fund

MONTHLY Commentary

Investor Class: ARTUX | Advisor Class: APDUX

As of 31 December 2023

## Commentary

Our portfolio marginally underperformed the Credit Suisse Leveraged Loan Index during the month. Positive contributions from our allocation to secured high yield bonds were offset by modestly negative security selection in loans. Across sectors, positive selection in financial services and specialty retail was offset by our allocation to technology & electronics.

Leveraged loans, as measured by the Credit Suisse Leveraged Loan Index, returned a healthy 1.6% in December, producing a full-year return of 13.0%. This represents the index's best calendar year return since 2009 and the second-best year since the index launched in 1992. Risk markets, including leveraged loans, rallied during the month on the back of slowing inflation data and perceived dovish Federal Reserve rhetoric. The average price of the index, excluding defaults, rose to 95.9 while yields fell to 9.0%; the index still yields more than 4% over its lowest level recorded in May 2021. New issuance totaled $52.8 billion in December, bringing the yearly total to more than $370 billion; however, the bulk (over $280 billion) of new issuance in 2023 was refinancing related. Excluding refinancings, new issuance in 2023 was 50% lower than that of 2022, a historically low issuance year.

By credit quality, CCC loans outperformed other categories, gaining 2.1% versus BBs at 1.2% and Bs at 1.7%. For the year, CCCs returned 16.1% versus BBs at 10.1% and Bs at 14.4%. Despite the strong performance of CCC loans during the year, spreads (discount margins) for the category remain more than 400bps wider than the start of 2022, while spreads for BBs and Bs are only 8bps and 52bps away from their year-end 2021 values, respectively. We believe the lagged recovery of lower quality loans versus their higher quality counterparts continues to create opportunities for us to buy misunderstood—and often misrated—issuers at attractive levels.

Default activity in December was the lightest in over a year, with only three distressed exchanges/defaults occurring across bonds and loans. The par-weighted default rate ended the year at 2.8% for bonds and 3.1% for loans, solidly outperforming consensus expectations coming into the year. 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%.

Credit markets defied expectations in 2023, with leveraged loans returning their best calendar year since 2009. 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, nominal yield levels remain elevated compared to those offered during the post-global financial crisis period, with loans providing the potential for high single-digit returns. Despite this optimism, we remain cognizant of any deterioration in business fundamentals, particularly as companies continue to operate in a higher interest rate regime. Overall, as we enter an uncertain 2024, we continue to view the asset class as a valuable constituent of a diversified portfolio and remain steadfastly focused on outperformance through our high-conviction approach.

## Portfolio Details

| | ARTUX | APDUX |
|---|---|---|
| Net Asset Value (NAV) | $9.67 | $9.67 |
| Inception | 1 Dec 2021 | 1 Dec 2021 |
| 30-Day SEC Yield (%)* | 8.14/8.59 | 8.47/8.72 |
| Expense Ratios (% Gross/Net) | | |
| Annual Report 30 Sep 2023[1,2] | 2.74/1.20 | 1.57/1.10 |
| Prospectus 30 Sep 2022[1,2] | 7.22/1.23 | 1.64/1.13 |

*Unsubsidized/subsidized. [1]Net expenses reflect a contractual expense limitation agreement in effect through 31 Jan 2025. [2]See prospectus for further details.

## Portfolio Statistics

| | |
|---|---|
| Number of Holdings | 80 |
| Number of Issuers | 57 |

Source: Artisan Partners.

## Top 10 Holdings (% of total portfolio)

| | |
|---|---|
| Delta Topco Inc | 5.0 |
| Nexus Buyer LLC | 4.7 |
| Ultimate Software Group Inc | 4.6 |
| STS Operating Inc | 4.4 |
| Edelman Financial Engines Center LLC | 3.5 |
| Medline Industries Inc | 3.0 |
| Surgery Center Holdings Inc | 2.6 |
| Fogo De Chao Inc | 2.5 |
| TKC Holdings Inc | 2.5 |
| Amynta Agency Borrower Inc | 2.4 |
| **TOTAL** | **35.2%** |

Source: Artisan Partners/Bloomberg. For the purpose of determining the portfolio's holdings, securities of the same issuer are aggregated to determine the weight in the portfolio.

## Investment Results (%)

| | | | | Average Annual Total Returns | | | | |
|---|---|---|---|---|---|---|---|---|
| As of 31 December 2023 | MTD | QTD | YTD | 1 Yr | 3 Yr | 5 Yr | 10 Yr | Inception |
| **Investor Class: ARTUX** | **1.42** | **2.47** | **13.57** | **13.57** | — | — | — | **5.11** |
| **Advisor Class: APDUX** | **1.53** | **2.50** | **13.69** | **13.69** | — | — | — | **5.22** |
| Credit Suisse Leveraged Loan Index | 1.61 | 2.85 | 13.04 | 13.04 | — | — | — | 5.83 |

Source: Artisan Partners/Credit Suisse. Returns for periods less than one year are not annualized.

**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.**

## Ratings Distribution (%)

| | |
|---|---|
| BBB | 3.3 |
| BB | 9.9 |
| B | 72.0 |
| CCC | 10.4 |
| D | 1.2 |
| Unrated | 3.2 |
| **TOTAL** | **100.0%** |

Source: Artisan Partners.

## Sector Diversification (% of portfolio securities)

| | |
|---|---|
| Automotive | 0.0 |
| Banking | 0.0 |
| Basic Industry | 0.9 |
| Capital Goods | 11.7 |
| Consumer Goods | 4.9 |
| Energy | 0.0 |
| Financial Services | 12.0 |
| Health Care | 8.9 |
| Insurance | 13.9 |
| Leisure | 5.1 |
| Media | 3.5 |
| Real Estate | 0.7 |
| Retail | 4.7 |
| Services | 13.6 |
| Technology & Electronics | 20.0 |
| Telecommunications | 0.3 |
| Transportation | 0.0 |
| Utility | 0.0 |
| Other | 0.0 |
| **TOTAL** | **100.0%** |

Source: Artisan Partners/ICE BofA. Cash and cash equivalents represented 13.2% of the total portfolio.

## Region/Country Allocation (% of portfolio securities)

| REGION | |
|---|---|
| **AMERICAS** | **100.0** |
| United States | 100.0 |
| **EUROPE** | — |
| **TOTAL** | **100.0%** |

Source: Artisan Partners. Breakdown based on issuer country of domicile, excluding cash.

## Portfolio Construction

A high-conviction portfolio comprised primarily of floating rate debt instruments that are attractively valued. At least 80% will be invested in floating rate leveraged loans, which could include, among other types of loans, senior secured loans, unsecured loans, second lien loans, bridge loans and junior loans. The portfolio has a bias toward US issuers but has the ability to invest globally. It also has flexibility to invest across the quality spectrum, in various industries and issuance sizes.

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## Team Leadership (Pictured left to right)


| Portfolio Managers | Years of Investment Experience |
|---|---|
| Bryan C. Krug, CFA (Lead) | 23 |
| Seth B. Yeager, CFA | 20 |

**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.

For the purpose of determining the Fund's holdings, securities of the same issuer are aggregated to determine the weight in the Fund. The discussion of portfolio holdings does not constitute a recommendation of any individual security. Securities named in the Commentary, but not listed as a Top Ten Holding or not listed here are not held in the Fund as of the date of this report. The portfolio managers' views and portfolio holdings are subject to change and the Fund disclaims any obligation to advise investors of such changes.

All information in this report includes all classes of shares, except performance and expense ratio information and as otherwise indicated, and is as of the date shown in the upper right hand corner unless otherwise indicated. Portfolio statistics calculations exclude outlier data and certain securities which lack applicable attributes, such as private securities. Artisan Partners may substitute information from a related security if unavailable for a particular security. Portfolio statistics include accrued interest unless otherwise stated and may vary from the official books and records of the Fund. Totals may not sum due to rounding.

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.

Sector exposure percentages reflect sector designations as currently classified by ICE BofA.

**30-Day SEC Yield** is based on a formula specified by the SEC that calculates a fund's hypothetical annualized income, as a percentage of its assets. The unsubsidized yield excludes the effect of fee waivers. This hypothetical yield will differ from the fund's actual experience and as a result, income distributions from the fund may be higher or lower. **Credit Quality** ratings are from S&P and/or Moody's. Ratings typically range from AAA (highest) to D (lowest) and are subject to change. The ratings apply to underlying holdings of the portfolio and not the portfolio itself. If securities are rated by both agencies, the higher rating was used. Securities not rated by S&P or Moody's are categorized as Unrated/Not Rated. **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. **Three-year takeout** refers to the point at which a current loan is refinanced or otherwise paid off. **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. **Par** represents the level a security trades at when its yield equals its coupon.

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