



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

Investment Results (% USD)

As of 30 September 2024	Average Annual Total Returns						
	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception ¹
Composite — Gross	5.10	8.24	15.87	5.04	7.14	7.34	7.21
Composite — Net	4.93	7.70	15.11	4.34	6.42	6.60	6.48
ICE BofA US High Yield Index	5.28	8.03	15.66	3.08	4.54	4.95	4.77

Annual Returns (% USD) Trailing 12 months ended 30 September

	2020	2021	2022	2023	2024
Composite — Net	5.41	14.04	-10.96	10.85	15.11

Source: Artisan Partners/ICE BofA. Returns for periods less than one year are not annualized. ¹Composite inception: 1 April 2014.

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. Unlike the Index, the High Income Composite may hold loans and other security types. At times, this causes material differences in relative performance. 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 ICE BofA US High Yield Index during the quarter. From an asset class perspective, the portfolio's allocation to bank loans was the largest detractor in a period where Treasury yields fell across the curve, partially offset by positive security selection in corporate bonds. By rating, the largest contributor was the portfolio's underweight and selection in BB-rated bonds. The portfolio benefited from an overweight to CCC-rated debt although negative selection effects in this segment offset this benefit. Across sectors, the largest positive contributors included our underweight in energy as well as security selection in transportation. The largest sector detractor was security selection in telecommunications.

Investing Environment

Equity market volatility increased in Q3 as investors weathered several brief but sharp selloffs. Weaker-than-expected employment reports in August and September resulted in several days of sharp declines in the S&P 500® Index that were quickly met with gains in subsequent days. The increasing weakness in the labor market reinforced investor beliefs that the Federal Reserve would reduce interest rates at its September 18 meeting, resulting in a material decline in Treasury yields; from the end of June through September 17, the yield for the 2-Year Treasury and 10-Year Treasury fell nearly 115bps and 75bps, respectively. The next day, the Fed announced a "jumbo" sized rate cut of 50bps, catching some investors by surprise as futures markets were relatively split between 25bps and 50bps. The Fed acknowledged a clear shift from inflation reduction as the number one priority to an approach recognizing "the balance of risks," with concerns over potential further weakening in the labor market contributing to its decision to reduce rates by 50bps rather than 25bps.

Against this backdrop, credit markets continued to perform and post attractive returns for investors. The ICE BofA US High Yield Index gained 5.3% for the quarter, its best since Q4 2023. Returns were driven by coupon income, spread tightening and price gains, aided by a drop in Treasury yields and continued economic strength. At the headline level, spreads tightened 18bps led by the CCC-rated segment, which tightened over 150bps during the quarter. It's worth noting that despite the significant outperformance of CCCs in the quarter, spreads for the segment remain almost 225bps wider than their 2021 low while the BB segment of the index remains historically tight. As CCCs have historically defaulted at a higher rate than BBs, we continue to believe that retaining selectivity and discipline in this segment is critical to investor success.

Meanwhile, leveraged loans continued their attractive performance consistency, notching their ninth consecutive quarter of positive returns. The Credit Suisse Leveraged Loan Index gained 2.1% for the quarter with discount margins tightening approximately 10bps. Similar to the high yield bond market, lower rated loans led performance for the quarter as split B loans returned 2.7% and

CCC/split CCC loans returned 2.6%. Generally speaking, the loan market is lower rated than the high yield bond market with issuers that have higher leverage points. In addition, issuers of leveraged loans generally experienced more significant erosions of interest coverage over the past two years given the floating rate nature of loans relative to fixed rate bonds. We believe leveraged loan issuers may benefit disproportionately from Fed rate cuts as their interest burdens decline in lockstep with declining secured overnight funding rates (SOFR).

Although the equity market drawdowns were quick to recover in the quarter, we believe it is worth highlighting the resiliency of credit markets during these bouts of volatility as a reminder of the attractive role that credit can play in a portfolio. The S&P 500® Index fell 6.1% from July 31 through August 5, while high yield bonds (as measured by the ICE BofA US High Yield Index) and leveraged loans (as measured by the Credit Suisse Leveraged Loan Index) fell only 0.9% and 0.6%, respectively, in the same period. For what looked like a short bout of investor panic in the equity market turned out to be simply a "yawn" for credit investors. We have seen this dynamic time and time again as—over the long term—credit markets tend to outperform equity markets in times of stress.

The flipside of strong credit market performance year-to-date has been a further tightening of spreads and a decline in yields. As the Federal Reserve embarks on a new easing cycle with expectations of further declines in base rates to come, it is worth noting that current yield levels still offer attractive return potential for credit markets on the whole. In an analysis done by JP Morgan, an allocation to high yield bonds when the index yields above 7% has historically offered compelling returns in the medium term. Over the past 37 years, high yield bonds have posted annualized forward 12-month and 24-month returns of 7.5% and 5.9%, respectively. In addition, leveraged loans continue to offer yield above and beyond that of high yield bonds, with the loan index outyielding the bond index by 120bps at month-end, even when accounting for market expectations of declining base rates in the coming years.

The primary market remains "wide open," with a flood of borrowers looking to refinance and reprice their loans. During the quarter, gross issuance for the high yield and leveraged loan markets was \$74 billion and \$206 billion, respectively, with high yield issuance in September reaching a three-year monthly high. Notably, while net new credit creation remains low relative to history, net supply has begun to rise recently aided by a pickup in leveraged buyouts and the market's confidence that the Fed will continue to lower rates. Net issuance (non-refinancing related) in September reached a 12-month and 30-month high in bonds and loans, respectively. We continue to believe that disciplined credit investing is key to long-term performance and margins of safety should not be compromised in search of yield; we retain a high rejection rate of new issuance across our platform.

Default volumes remain low, dominated by distressed exchanges/liability management exercises rather than “hard defaults” such as missed payments or bankruptcies. Given the significant amount of refinancing and repricing that has occurred year-to-date, borrowers have extended their maturity ladder and reduced interest burdens, which we believe helps to alleviate some default risk in liquid credit markets at a broad level. In addition, the dramatic growth in private credit markets over the past decade has enabled a risk transfer of higher credit risk borrowers from public to private credit. Historically, the only real financing source for smaller, higher leverage and ultimately riskier issuers was the syndicated debt markets. As the private credit market has become a viable alternative source of financing for these companies over the past 10 years, those smaller issuers with a higher propensity to default have eschewed the syndicated market and opted to finance through direct lenders, potentially reducing default risk in public credit.

Portfolio Positioning

Our allocation to loans increased incrementally over the quarter to 17.4%, driven by a unique opportunity that became available in the primary market. In September, we participated in the new issuance for a sporting goods manufacturer with a portfolio of well-known brands across outdoor sporting activities such as hunting and fishing. As the loan deal began to take shape, the company and its sponsor ramped up concessions by providing tremendously creditor-friendly documentation, hard call protection above par, an above-market spread and an issue price seven points below par—a rarity in the loan market, particularly in a benign economic environment. The potential for an early takeout or refinancing creates a unique convexity opportunity for this loan to outperform the broader market.

The average price of our portfolio was approximately \$93.6 at the end of September, which remains at a discount relative to the high yield index. In addition, the portfolio retains its yield advantage over the benchmark as we continue to identify attractive opportunities to earn above-market coupons. We retain our yield advantage despite our allocation to cash, which was pared down in the quarter and invested in select opportunities such as the previously noted outdoor sporting goods manufacturer.

In light of the strong market performance of CCCs this year, it’s worth highlighting our differentiated exposure to this segment. As our longtime investors are keenly aware, a considerable portion of our CCC exposure historically has been invested in insurance brokers—asset-light business with a tremendous ability to generate cash flow. Fundamentally, we believe these businesses are misrated by rating agencies and offer us the potential ability to earn attractive risk-adjusted returns over the long term with the potential for superior downside protection versus other industries rated CCC. However, in environments where CCC-rated debt rallies significantly, these issuers tend to lag the broader CCC market, as evidenced in 2024 performance. Over the long term, our discipline in this segment has

rewarded our investors with superior performance for our CCC holdings versus the broader CCC market.

Perspective

Credit markets shook off equity market volatility during the quarter and posted attractive returns, buoyed by income returns and price gains. With three quarters of the year complete, both the high yield bond and leveraged loan market are trending toward full-year returns that are in line with or above their yield levels at the beginning of the year, providing compelling value to a diversified portfolio. Though spreads have tightened considerably year-to-date, the current entry point for credit market yields remains attractive relative to history.

Nevertheless, in a time of “wide open” capital markets, tighter credit spreads and a rise in distressed exchanges, the value of active management has never been more important. Discipline and vigilance remain core tenets of our philosophy as we continue to guide the portfolio through the current cycle. Our focus remains on avoidance of capital impairment while identifying unique, idiosyncratic opportunities to deploy capital at above-market coupons and attractive discounts to par, endeavoring to achieve compelling risk-adjusted returns for our investors.

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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.

ICE BofA US High Yield Index measures the performance of below investment grade US dollar-denominated corporate bonds publicly issued in the US market. 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 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). S&P 500[®] Index measures the performance of 500 US companies focused on the large-cap sector of the market. 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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