Artisan High Income Strategy

QUARTERLY
Commentary

As of 31 March 2025

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)

			Average Annual Total Returns				
As of 31 March 2025	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception[1]
Composite — Gross	**1.30**	**1.30**	**9.04**	**6.08**	**10.13**	**7.22**	**7.11**
Composite — Net	**1.13**	**1.13**	**8.32**	**5.38**	**9.40**	**6.49**	**6.37**
ICE BofA US High Yield Index	0.94	0.94	7.60	4.83	7.21	4.91	4.65

Calendar Year Returns (% USD)

	2020	2021	2022	2023	2024
Composite — Net	**10.24**	**6.45**	**-9.76**	**16.18**	**8.67**

Source: Artisan Partners/ICE BofA. Returns for periods less than one year are not annualized. [1]Composite 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 outperformed the ICE BofA US High Yield Index during the quarter. From an asset class perspective, the most notable contributor was security selection in the corporate bond segment. The portfolio's allocation to bank loans detracted marginally during the quarter on a relative basis but contributed positively to performance on an absolute basis. By rating, the portfolio benefited from security selection in B and CCC-rated debt while an underweight to BB-rated credit detracted from returns. Across sectors, the most notable contributors included security selection in media and telecommunications, while security selection in consumer goods detracted.

Investing Environment

Market narratives shifted materially in Q1 as widespread views of continued economic strength and a pro-growth administration earlier in the quarter gave way to rising investor anxiety over economic growth. Sentiment change accelerated notably in March as increased rhetoric around tariffs began to weigh on investor confidence. After a positive January, the S&P 500® Index peaked in mid-February before falling in March and ending the quarter down 4.3%. Meanwhile, Treasury market volatility continued as the 10-Year Treasury yield reached a high of 4.79% in mid-January before falling nearly 60bps as the quarter progressed, ending March at 4.21%. The volatility in Treasury yields reflected evolving investor expectations around the path of economic growth and monetary policy. At the end of 2024, the Fed funds futures market was pricing in less than two cuts by year-end 2025. By the end of March, more than three cuts were expected by the end of the year.

Encouragingly, credit markets exhibited resiliency in the face of recent market stress and outperformed equities during the quarter, with particularly strong outperformance in March. The ICE BofA US High Yield Index gained 0.9% for the quarter, even as spreads widened 63bps in Q1. In addition, the S&P UBS Leveraged Loan Index gained 0.6% for the quarter with material outperformance over the high yield index in March. As we have previously discussed, the level of absolute yields offered by credit markets continued to provide investors with what we believe to be an attractive cushion, as coupon income more than offset price declines during the quarter. We continue to believe the relative resilience of credit versus equities from a total return perspective in Q1 is another testament to the diversification benefits that credit markets can bring to portfolios.

In a reversal from the second half of 2024, lower rated credit underperformed higher rated during the quarter. The ICE BofA CCC and Lower US High Yield Index fell 0.7% while the ICE BofA BB US High Yield Index gained 1.5%. However, within CCCs there was material dispersion of returns across sectors during the quarter, as those sectors perceived more insulated from tariffs—such as insurance brokers—posted positive returns while other segments, such as retail, fell over 3%. Of particular note is that the distressed component of the market—a material driver of high yield returns in the second half of 2024—fell over 1.8% in the quarter and at time of writing, continues to lag the broader market in April. As discussed in prior letters, the distressed component of the market was bid up in 2024 particularly after the Federal Reserve began its easing cycle but has now notably underperformed in 2025 amid increased investor concerns surrounding economic growth.

At time of writing, market volatility has picked up significantly in April following the unveiling of reciprocal tariffs and continued trade war escalations. At peak year-to-date drawdown on April 8, the S&P 500® Index had fallen 15.0% while the high yield index and loan index had fallen 1.8% and 0.8%, respectively. Given historical downside market capture relationships between credit and equities, investors would have expected higher drawdowns from our market. We believe the evolution of credit markets in recent years, combined with strong technicals, helped provide improved downside protection versus equities in this most recent bout of volatility. As we have previously discussed at length, the high yield market has high-graded over the past 15 years, and we believe that risky issuance is now more frequently financed in the private credit market rather than the broadly syndicated market. In addition, attractive yield levels continued to entice technical demand from buyers, who have viewed recent spread widening as a buying opportunity.

Fundamentally, the high yield bond and leveraged loan markets entered this most recent period of volatility from a position of strength, with a declining near-term maturity wall and stable-to-improving credit metrics. According to recent reports from JP Morgan, high yield balance sheets in 2025 continued to be in a "strong state" with improving interest coverage ratios and declining leverage. Similarly, a year-end report from JP Morgan noted a swath of metrics for the US loan market "stabilizing" in recent quarters, with potential for further improvement from Federal Reserve rate cuts. Finally, as discussed last quarter, companies took advantage of more favorable capital markets conditions in 2024 to address maturities, with the amount of debt maturing in 2025 and 2026 falling materially as a percentage of the overall bond and loan market on a year-over-year basis. Overall, the fundamental strength of today's credit market gives us a degree of confidence that most companies in our market can manage through what may be a more volatile period in 2025.

Portfolio Positioning

During the quarter, our leveraged loan allocation increased roughly 4% as we continued to find attractive idiosyncratic credits in this market. Our most notable loan purchase in Q1 was the addition of a social media platform, which we initially purchased at an attractive discount to par while benefiting from above-market coupons. The business has rightsized its cost structure since it was taken private in 2022 with improving profitability, and we believe the name offers compelling total return potential with ample cushion, as publicly reported valuations imply an attractive loan-to-value (LTV). At time of writing, we continued to find compelling new investment opportunities in the loan market as a result of April's market volatility, as select assets in this market offer an attractive combination of discounts to par and what we perceive to be ample compensation for true level of credit risk.

Recent market volatility serves as a useful reminder of the benefits of our differentiated approach and process. As noted above, sector dispersion has increased in 2025 and particularly in April (as of the time of writing). As we entered 2025, our emphasis on business quality—consistent with our process since inception—led us to focus our portfolio on sectors like insurance (brokers), leisure (cruise lines), media and telecommunications. On a relative basis, we believe these sectors are more insulated from tariff concerns by the very nature of their businesses. Notably, what we did not own is just as important as what we did. For example, the energy sector has lagged materially in 2025 with declining macro sentiment weighing on oil prices; at the end of 2024, we held less than 3% exposure in the segment. Consistent with our philosophy and process, when the market is trading relatively tight (such as the end of 2024) we prefer cash flowing assets with less cyclicality, as markets trading close to par typically offer little upside for cyclical risk, such as energy credit.

The quarter also served as a useful reminder of our approach around credit quality. We have historically held above-market weights to assets rated CCC, as we believe certain market segments (such as insurance brokers) continued to be fundamentally misrated by rating agencies. Unsurprisingly, our CCC-rated exposure added value in Q1 as our CCCs outperformed the broader rating category given our emphasis on business quality. It's also worth highlighting that our CCC exposure overall had been declining in recent quarters as we refocused the CCC segment as credit markets rallied. For example, at the end of 2022 our portfolio held approximately 26% in CCCs; as markets tightened in 2023 and 2024, this allocation had been reduced to 22% at the end of February.

We remain on the hunt for attractive assets trading at discounted prices. At time of writing, there is not yet broad-based dislocation in our market as a result of April's volatility, though we are beginning to see select opportunities. As always, we will apply a lens of business quality and perform rigorous due diligence when selecting assets for the portfolio and our investors.

Perspective

In a span of just a few months, prevailing market narratives have dramatically shifted. At time of writing, investors are hotly debating the potential for an economic slowdown leading to a recession. Market volatility has considerably increased, and equity markets remained underwater year-to-date. We believe credit markets can provide investors attractive diversification to equity risk while current valuations offer a more attractive entry point than at the start of the year.

From a portfolio perspective, we believe the prospect of further volatility creates opportunity for discerning buyers such as us. While there has yet to be true market dislocation, we are beginning to identify attractively discounted assets offering compelling return potential as a result of the recent market moves. We retain a high bar for inclusion in the portfolio and continue to emphasize business quality and fundamental issuer strength.

For more information: Visit www.artisanpartners.com

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. This is a marketing communication.

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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. ICE BofA BB US High Yield Index is a subset of ICE BofA US High Yield Index including all securities rated BB1 through BB3, inclusive. S&P 500® Index measures the performance of 500 US companies focused on the large-cap sector of the market. ICE BofA CCC & Lower US High Yield Index is a subset of ICE BofA US High Yield Index including all securities rated CCC1 or lower. ICE BofA US Distressed High Yield Index (Distressed Index) is a subset of ICE BofA US High Yield Index including all securities with an option-adjusted spread greater than or equal to 1,000 basis points. S&P UBS Leveraged Loan Index is an unmanaged market value-weighted index designed to mirror the investable universe of the US dollar-denominated leveraged loan market. Loan facilities must be rated "BB" or lower by S&P, Moody's or Fitch; 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.

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