Beyond Traditional Diversification

Building More Resilient Portfolios in a Changing Correlation Regime

When Traditional Diversification Works and When It Doesn't

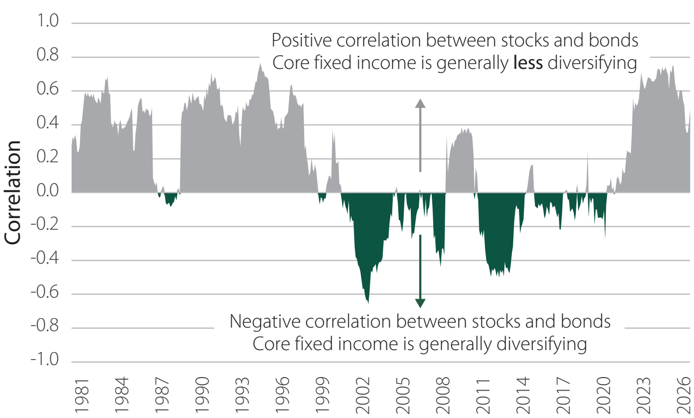
The historical relationship between stocks and bonds is not static.

Many investors have become accustomed to an environment in which bonds can reliably diversify equity risk. During much of the post-2000 period, declining inflation volatility and accommodative monetary policy helped create persistently negative stock-bond correlations.

But over longer history, this relationship has varied significantly. The experience of 2022 highlighted the cyclical nature of stock-bond relationships. Faced with an inflation shock and rapid interest rate increases, equities and fixed income sold off simultaneously, undermining the diversification benefits investors had come to expect from a traditional 60/40 portfolio.

Exhibit 1: Stock-Bond Correlation Regimes

Rolling Two-Year Stock and Bond Correlation (Jan 1980–Mar 2026)



Source: Artisan Partners/ICE BofA/S&P. As of 31 Mar 2026. Correlation between stocks and bonds is represented by the S&P 500® Index and the ICE BofA US Corporate & Government Index.

Why This Matters for Traditional Portfolios

Rising stock-bond correlations can materially increase portfolio risk.

As stock-bond correlations rise from negative to positive: 1) portfolio volatility increases, 2) drawdowns become larger, 3) bonds become less effective portfolio hedges and 4) investors may need to reduce equity exposure to maintain the same risk profile.

Importantly, this dynamic may be particularly relevant in environments characterized by persistent inflation uncertainty, elevated fiscal deficits, rising US Treasury issuance, higher term premium and greater interest rate volatility.

In these regimes, traditional core fixed income may not provide the same diversification benefits investors experienced during disinflationary environments. For allocators seeking to build more resilient portfolios, expanding the opportunity set beyond traditional core bonds may provide additional tools to manage risk and diversify return sources.

Diversification can be regime dependent—correlations work when they work, and don't when they don't.

Expanding the Fixed Income Opportunity Set

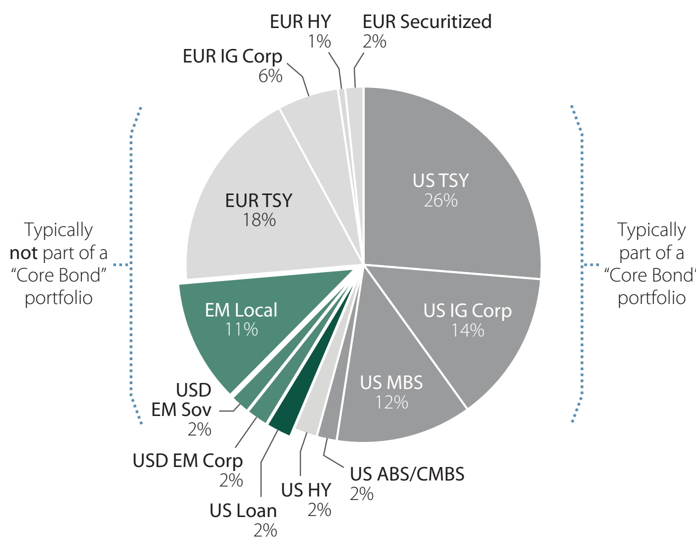
Today's fixed income universe is far broader than traditional core bonds.

Many traditional bond allocations remain heavily concentrated in a relatively narrow portion of the investable fixed income universe.

Yet today's global traded fixed income market spans nearly $70 trillion across bank loans, high yield bonds, non-US corporates, emerging market debt, structured credit and global sovereigns. This broader opportunity set may offer investors additional tools to reduce duration sensitivity, access differentiated return streams and improve diversification.

Exhibit 2: Fixed Income Today: Allocators Have More Choice than Ever

Global Traded Fixed Income Today: A Nearly $70 Trillion Market



Source: Artisan Partners/ICE BofA/S&P. As of 31 Dec 2025. Based on par amount outstanding of indices. See disclosure section for important information.

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 in the disclosure section, which should be read in conjunction with this material.

Adding Flexible Global Fixed Income Exposure

Many traditional fixed income allocations remain heavily concentrated in domestic investment grade bonds and benchmark-oriented strategies. While these approaches can serve important portfolio roles, they may offer limited flexibility when interest rate, inflation or policy regimes shift.

Flexible, unconstrained global fixed income approaches seek to expand the opportunity set beyond traditional benchmarks, allowing investors to access a broader range of return drivers across global rates, currencies, sovereign debt and corporate credit markets.

A key advantage of this flexibility is the ability to pursue opportunities in less efficient areas of the market. While many developed market asset classes are heavily researched and actively traded, portions of the global fixed income universe—including segments of emerging market debt—often receive significantly less analyst coverage and investor attention (Exhibit 3). These market inefficiencies may create opportunities for skilled active managers to identify mispriced securities and generate differentiated sources of return.

For investors concerned about the potential limitations of stock-bond diversification in a higher inflation, more volatile macroeconomic environment, flexible global fixed income may provide an additional source of portfolio diversification and resilience.

Exhibit 3: Global Fixed Income Beyond Traditional Benchmarks

Emphasis Where Capital and Informational Density Are Lowest

Asset Class	Market Size	% Market Actively Competed[1]	Average Sell-Side Coverage[2]
Equities (S&P 500)	~$60T	~20–25%	20–40 analysts per company
Developed Market Government Bonds	~$45T	~25–35%	15–25 rates strategists per market
US Investment Grade Corporate	~$12T	~20%	10–20 credit analysts per issuer
US High Yield Corporate	~$1.9T	~55–65%	5–15 credit analysts per issuer
Emerging Market Bonds (Total Investable)	~$20T	~6–7%	2–10 sovereign analysts per country
EM On-Benchmark	~$2.0T	~65–70%	5–10 sovereign analysts per country
EM Off-Benchmark/Frontier	**~$18T**	**~1–2%**	**0–3 analysts per country (2–5 in distressed/restructuring periods)**

Source: Artisan Partners/ICE BofA/S&P. As of 31 Dec 2025. See disclosure section for important information.

Artisan Global Unconstrained Strategy

The EMsights Capital Group employs a flexible global long/short approach that invests primarily in non-US fixed income securities and currencies, with an emphasis on emerging markets. The approach combines top-down macro analysis with bottom-up fundamental research across sovereign debt, corporate credit, interest rates and currencies. Portfolio construction is driven by risk-factor analysis and implemented through a broad global opportunity set unconstrained by traditional fixed income benchmarks. The resulting portfolio typically reflects a diverse set of exposures across sovereign debt, corporate credit, interest rates and currencies.

Investment Results

(% USD) as of 30 Jun 2026	QTD	YTD	Average Annual Total Returns 1 Yr	3 Yr	Inception
Composite—Gross	0.25	4.53	12.43	10.86	11.07
Composite—Net	0.02	4.03	11.37	9.82	10.03
ICE BofA 3-Month U.S. Treasury Bill Index	0.89	1.74	3.84	4.63	4.14

Calendar Year Returns

(% USD)	2021	2022	2023	2024	2025
Composite—Gross	—	—	8.94	12.25	12.79
Composite—Net	—	—	7.92	11.20	11.73
ICE BofA 3-Month U.S. Treasury Bill Index	—	—	5.01	5.25	4.18

Source: Artisan Partners/ICE BofA. Composite Inception: 1 Apr 2022. Returns for periods less than one year are not annualized.

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. Composite performance has been presented in both gross and net of investment management fees.

On January 2, 2025, the fair value methodology used to value emerging markets debt held by the Artisan Global Unconstrained Strategy was changed from using bid pricing to using the midpoint between the bid and ask price. The change resulted in a one-time increase of less than 0.35% in the composite performance for Artisan Global Unconstrained Strategy.

Adding Bank Loan Exposure

While unconstrained global fixed income strategies may help investors diversify return sources and reduce reliance on traditional stock-bond relationships, floating rate loans may help address duration risk and enhance income potential.

Floating rate loans may provide a compelling complement to traditional fixed income allocations in higher-rate and more inflation-sensitive environments. Historically, the asset class has combined attractive income generation, limited duration exposure and a relatively consistent return profile. Unlike traditional fixed rate bonds, bank loans have generally been less sensitive to rising interest rates while historically delivering competitive risk-adjusted returns (Exhibit 4).

Bank loans have offered a combination of attractive yields, limited interest-rate sensitivity and more attractive relative valuations versus many other credit sectors (Exhibit 5). At the same time, the structure of the loan market has evolved significantly over the last decade. The market has grown materially larger, while increasing participation from CLOs and private credit vehicles may create periods of forced selling and dislocation that active managers can potentially exploit.

Exhibit 4: Bank Loans Are a Time-Tested Asset Class

Higher ← → Lower

Compounding: 15 Year Total Return (ann.)

High Yield 5.91%	Bank Loans 5.10%	EMD 4.35%	IG Corp 3.75%	MBS 2.03%

Efficiency: 15 Year Sharpe Ratio

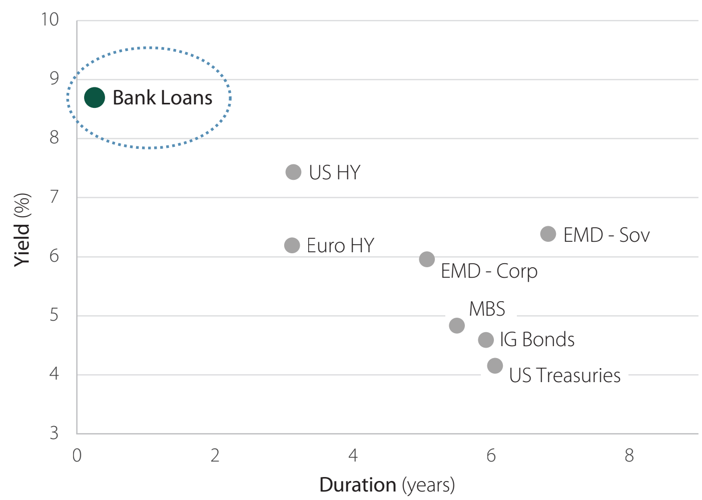
Bank Loans 0.77	High Yield 0.63	IG Corp 0.38	EMD 0.36	MBS 0.13

Consistency: Frequency of Positive Years Since 1992

Bank Loans 91%	MBS 88%	EMD 79%	High Yield 79%	IG Corp 76%

Source: Artisan Partners/ICE BofA/S&P. As of 31 Dec 2025. See disclosure section for important information. **Past performance does not guarantee and is not a reliable indicator of future results.**

Exhibit 5: Bank Loans Currently Offer the Best Combination of High Yields and Low Interest Rate Risk



Source: Artisan Partners/ICE BofA/S&P. As of 31 Mar 2026. Yield shown uses yield-to-worst for fixed income indices and yield (3-year life) for bank loans. Duration uses effective duration for fixed income indices and assumes 0.25 year duration for loans (quarterly reset). See disclosure section for important information. **Past performance does not guarantee and is not a reliable indicator of future results.**

Artisan Credit Opportunities Fund

The Artisan Credit Opportunities Fund is a flexible, credit-intensive investment approach designed to generate attractive risk-adjusted returns. The strategy employs a high-conviction, bottom-up research process to identify opportunities across the corporate capital structure, including bonds, loans, and other securities of leveraged corporate issuers.

By capitalising on market dislocations and special situations, it seeks to exploit the illiquidity premium and asymmetric risk profiles inherent in credit investments. Unconstrained by credit ratings and liquidity, the strategy allows for dynamic rotation of exposures to take advantage of opportunities throughout the credit cycle, aiming for idiosyncratic outcomes less correlated with overall market direction.

To learn more about the strategy, click here.

As at months end (%) (A$)	1 mth	3 mths	6 mths	CYTD	1 Yr	2 Yr pa	3 Yrs pa	5 Yrs pa	Inception pa
Artisan Credit Opportunities Fund (Net)	0.9	4.6	1.6	1.6	5.5	8.5	10.7	7.5	9.0

Source: Copia/Artisan Partners/BofA. * Inception of the Fund for performance calculation purposes is 20 June 2017. Performance shown represents that of the underlying fund, Artisan Credit Opportunities Offshore Fund Ltd Class A (net of 1% management fee and 15% incentive allocation) for the period since inception through 30 November 2022 and Artisan Credit Opportunities Fund (net of 1% management fee and 15.375% performance fee) for periods thereafter. Returns reflect reinvestment of dividends, interest, and other proceeds from transactions along with the deduction of financing costs and operational and transaction expenses. All performance information is subject to revision and may vary from the official fund books and records. Deduction of early redemption fees (if applicable) are not reflected; if assessed, redemption fees would reduce performance. The Artisan Credit Opportunities Fund returns will vary from that of the underlying fund due to the fee and expense variations and employment of hedging to AUD from USD. Past performance is not a reliable indicator of future performance.

Figures as at 30 June 2026

Copia is the distributor of all Artisan funds in Australia. For further information or enquiries, please contact

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