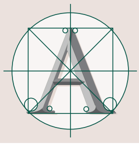

Artisan High Income Fund

QUARTERLY Commentary

Investor Class: ARTFX | Advisor Class: APDFX | Institutional Class: APHFX

As of 31 December 2023

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 (%)

As of 31 December 2023	QTD	YTD	Average Annual Total Returns 1 Yr	3 Yr	5 Yr	10 Yr	Inception
Investor Class: ARTFX	**6.66**	**15.69**	**15.69**	**3.45**	**6.77**	**—**	**5.90**
Advisor Class: APDFX	**6.83**	**15.87**	**15.87**	**3.61**	**6.94**	**—**	**6.06**
Institutional Class: APHFX	**6.86**	**15.97**	**15.97**	**3.74**	**7.04**	**—**	**6.07**
ICE BofA US High Yield Index	7.06	13.46	13.46	2.00	5.21	—	4.33

Source: Artisan Partners/ICE BofA. Returns for periods less than one year are not annualized. Class inception: Investor (19 March 2014); Advisor (19 March 2014); Institutional (3 October 2016). For the period prior to inception, Institutional Class performance is the Investor Class's return for that period ("Linked Performance"). Linked Performance has not been restated to reflect expenses of the Institutional Class and the share class's returns during that period would be different if such expenses were reflected.

Expense Ratios	ARTFX	APDFX	APHFX
Annual Report 30 Sep 2023	0.94	0.79	0.70
Prospectus 30 Sep 2022[1]	0.95	0.80	0.71

[1]See prospectus for further details.

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. Unlike the Index, the High Income Fund may hold loans and other security types. At times, this causes material differences in relative performance.

Performance Discussion

Our portfolio performed in line with the ICE BofA US High Yield index, posting strong absolute gains. Our security selection in corporate bonds offset underperformance driven by our allocation to loans in an environment where Treasury rates fell sharply; year-to-date, the loan allocation remains a positive contributor to relative returns, with the allocation having outperformed both the broader high yield market as well as our own bond allocation. From a ratings perspective, all major segments (BB, B, CCC) contributed to relative return with strong security selection effects across BBs, Bs and CCCs. Despite CCCs generally exhibiting shorter duration relative to the broader market, our CCC allocation outperformed the index, led by our exposure to the insurance brokerage sector. Consumer goods was the only notable detractor from a sector perspective.

Investing Environment

The fourth quarter of 2023 was the best returning quarter for high yield since 2020, as interest rates dropped sharply and credit spreads tightened. While leveraged loans (as measured by the Credit Suisse Leveraged Loan Index) underperformed fixed rate debt in the quarter, the loan market still posted positive gains of 2.9%. The outsized returns helped leveraged credit markets notch impressive calendar year gains on a historical basis; since 1992, the yearly return for bonds of 13.5% ranked in the 87th percentile of calendar years, while 2023's gain of more than 13% was the second-best ever for the loan market.

While quarterly returns were impressive, the gains mask the intra-quarter volatility experienced by investors. October featured a sharp move higher in rates and spreads, as markets reacted negatively to Fed rhetoric and geopolitical tensions in the Middle East. This narrative flipped quickly in November and December as slowing inflation prints, a moderating but healthy job market and a strong dovish market perception of the Fed's December meeting led to the growing "soft landing" narrative. Markets responded by recouping October losses quickly, with the 10-Year Treasury erasing nearly all of the rate move upward during the year.

From a spread perspective, both bond and loan spreads tightened significantly during the quarter led by the market's positive risk sentiment in November and December. At the broad market level, the ICE BofA US High Yield Index tightened by 64bps while the discount margin for the CS Leveraged Loan Index tightened by 23bps. Spreads for bonds are below median levels historically, though we would note the significant high grading of the high yield market post 2008 makes long-term comparisons more difficult; BBs are a much higher weighting of the high yield universe today while CCCs are roughly half their peak exposure in the global financial crisis (GFC). In addition, dispersion remains elevated relative to 2021 particularly in lower quality segments of the market, providing ample opportunities for "credit pickers" to capture mispricings.

New issuance finished the year with a strong quarter, contributing to issuance levels in 2023 exceeding 2022's historically low amounts. High yield issuance totaled nearly $176 billion in 2023, while leveraged loan issuance totaled more than $370 billion. However, the majority of issuance continues to be refinancing related. Excluding refinancing, 2023 issuance in high yield was in line with 2022, while issuance in loans declined nearly 50% year-over-year, driven by M&A and leveraged buyout (LBO) activity that remains well below 2020 and 2021 levels. This lack of supply continues to create a positive tailwind for the pricing of high yield and loan markets, as maturities and coupons are recycled into a shrinking asset base.

Excluding distressed exchanges, the par-weighted default rate for both bonds and loans was 2.1% at year end. While this is an increase from the exceptionally low levels in 2021 and 2022, default rates are near long-term averages. Broader high yield and leveraged loan fundamentals remain strong, supported by resilient corporate profitability, attractive interest coverage ratios and reasonable leverage levels compared to history. Defaults continue to be idiosyncratic in nature, driven by firms with unsustainable capital structures.

Given the aforementioned lack of LBOs and M&A activity, we continue to observe the dynamic of private credit lenders refinancing syndicated credit, positively impacting our market. Throughout 2023, over $20 billion of syndicated loans were refinanced by private credit. Often, syndicated markets viewed these issuers with a healthy degree of skepticism on their ability to service and repay, as evidenced by market pricing below par. This risk transfer into private markets—or what we refer to as "one man's trash is another man's treasure"—has benefited the broadly syndicated loan market by removing generally lower quality, potential future default candidates. As demand continues to outweigh supply in private credit markets, we anticipate this trend to continue and ultimately be a positive tailwind, reducing a portion of the long-term default risk in our market.

Portfolio Positioning

At a high level, our positioning did not change materially during the quarter. Our split between fixed and floating rate remained similar at roughly 75% bonds and 15% loans, while cash ended the quarter slightly below 10%. We remain comfortable with our cash level with an eye toward spending down cash as opportunities present themselves in the primary and secondary markets.

The average price of our portfolio was approximately $90.5 at year end. Despite the significant gain in 2023, our portfolio, as well as the broader high yield market, remains at a significant discount to par. This is particularly evident in lower rated bonds, with the ICE BofA US CCC & Lower Index priced at $79. A discount to par can provide a powerful convexity effect as bonds approach maturity, providing additional return potential in addition to coupon income.

Our flexibility, high conviction and tendency to invest out of consensus contributed meaningfully to performance during the year, with no better example than our allocations to insurance brokerages

and leisure (cruise lines), two of the top sector contributors to performance in the quarter. While each sector is driven by different market forces and economic factors, our exposures in each segment exemplify the importance of deep, fundamental due diligence, giving us the confidence to make high-conviction allocations.

Within insurance brokerages, we believe the segment continues to be misunderstood by rating agencies and the broader market, with business models providing an underappreciated consistency of revenue and customer retention. As such, we believe the segment is positioned well to weather economic headwinds, with our exposures expected to be less cyclical than their CCC rating would imply. This is well reflected by our exposure to NFP, which announced during the quarter an acquisition by Aon; our largest exposure within the NFP complex jumped more than 8 points on the date of the announcement in December, contributing to the bonds rallying from roughly 86 at the start of the quarter to 103 at quarter end. Aon's recognition of NFP's value proposition provides continued validation of the attractiveness of the sector and its ability to generate cash flow.

Within leisure, cruise lines remain our top contributor, led by Carnival and Norwegian. During a challenging 2022 for the space as market sentiment soured broadly and bond and loan prices struggled for cruise line operators, we retained our conviction as we continued to see evidence of a longer term recovery in these business models. This conviction has rewarded us with strong performance throughout 2023, a trend that continued during the quarter as the price of our largest exposure—Carnival 6% bonds of 2029—rose 11 points. A trend of continued deleveraging and earnings improvement will eventually lead these operators back to investment grade ratings, a natural exit for our position; nonetheless, we continue to monitor these holdings closely as spreads have tightened considerably year-to-date, and they remain swap candidates if better relative value opportunities present themselves.

Our top 10 exposures remained relatively consistent, with the exception of VistaJet, which reentered the top 10 through additional purchases made during the quarter. Ardonagh Group exited the top 10 but remains a key holding in our insurance brokerage sector.

Perspective

Coming into 2023, a growing chorus of market participants believed a recession was imminent, as the Federal Reserve had embarked on its most ambitious tightening campaign in decades. Credit markets responded by defying expectations, with high yield bonds and leveraged loans returning their best calendar years since 2019 and 2009, respectively. A combination of solid corporate fundamentals, better-than-expected economic data and slowing inflation ignited a rally in spreads throughout the year, with lower quality credit significantly outperforming. Decisions we made in 2022—such as reallocating high-quality loan exposure to more dislocated bonds, along with maintaining our conviction in cruise lines—propelled our portfolio to a strong year of outperformance in 2023.

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, absolute yield levels for the asset class remain elevated compared to yields during the decade after the GFC, with both bonds and loans providing the potential for high-single-digit returns.

We remain cognizant of any deterioration in business fundamentals as companies refinance debt and continue to operate in a higher interest rate regime. We expect defaults to continue to increase from the historically low levels of 2021, though market structure changes—such as the risk transfer of more challenged borrowers to the private credit market—help increase the quality of the underlying borrower base. Overall, as we enter an uncertain 2024, we view the asset class as a valuable constituent of a diversified portfolio and remain steadfastly focused on outperformance through our high-conviction and flexible approach.

ARTISAN CANVAS

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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. 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.

ICE BofA US High Yield Index measures the performance of below investment grade $US-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. The index(es) are unmanaged; include net reinvested dividends; do not reflect fees or expenses; and are not available for direct investment.

This summary represents the views of the portfolio managers as of 31 Dec 2023. Those views may change, and the Fund disclaims any obligation to advise investors of such changes. For the purpose of determining the Fund's holdings, securities of the same issuer are aggregated to determine the weight in the Fund. These holdings comprise the following percentages of the Fund's total net assets (including all classes of shares) as of 31 Dec 2023: Carnival Corp 4.0%; NFP Corp 3.5%; NCL Corp Ltd 3.2%; VistaJet 2.1%; The Ardonagh Group 2.0%. Securities named in the Commentary, but not listed here are not held in the Fund as of the date of this report. Portfolio holdings are subject to change without notice and are not intended as recommendations of individual securities. All information in this report, unless otherwise indicated, includes all classes of shares (except performance and expense ratio information) and is as of the date shown in the upper right hand corner. Portfolio statistics include accrued interest unless otherwise stated and may vary from the official books and records of the Fund. This material does not constitute investment advice.

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Credit Quality ratings are determined by Artisan Partners based on ratings from S&P and/or Moody's, which typically range from AAA (highest) to D (lowest). For securities rated by both S&P and Moody's, the higher of the two ratings was used, and those not rated by either agency have been categorized as Unrated/Not Rated. Ratings are applicable to the underlying portfolio securities, but not the portfolio itself, and are subject to change. **Non-Investment Grade** refers to fixed income securities with lower credit quality. **Spread** is the difference in yield between two bonds of similar maturity but different credit quality. **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. **Duration** estimates the sensitivity of underlying fixed income securities to changes in interest rates—the longer the duration, the greater the sensitivity to changes in interest rates. **Free Cash Flow** is a measure of financial performance calculated as operating cash flow minus capital expenditures. **Par** represents the level a security trades at when its yield equals its coupon. **Leveraged Buyout (LBO)** is the acquisition of another company using a significant amount of borrowed money to meet the cost of acquisition.

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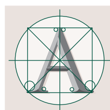
A R T I S A N  P A R T N E R S

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