Artisan High Income Fund

QUARTERLY Commentary

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

As of 30 June 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 30 June 2023	QTD	YTD	Average Annual Total Returns: 1 Yr	3 Yr	5 Yr	10 Yr	Inception
Investor Class: ARTFX	**1.86**	**6.91**	**8.09**	**5.18**	**4.42**	—	**5.33**
Advisor Class: APDFX	**1.91**	**6.86**	**8.11**	**5.34**	**4.56**	—	**5.48**
Institutional Class: APHFX	**1.93**	**6.91**	**8.33**	**5.44**	**4.68**	—	**5.48**
ICE BofA US High Yield Index	1.63	5.41	8.87	3.21	3.19	—	3.74

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
Semi-Annual Report 31 Mar 2023[1]	0.94	0.79	0.70
Prospectus 30 Sep 2022[2]	0.95	0.80	0.71

[1]Unaudited, annualized for the six-month period. [2]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 outperformed the ICE BofA US High Yield Index in Q2 to extend its lead over the benchmark for the year. The quarter's relative gains were driven by strong security selection across the portfolio's bond and loan allocation, both of which outperformed the broader market during the quarter. The portfolio's underweight to BBs in favor of lower rated and more idiosyncratic risk continued to drive outperformance in Q2 with the quarter's broader risk-on price action. Additionally, strong performance among leisure, insurance brokerage and select services were notable contributors. In particular, the portfolio's long-held cruise line exposure landed among the top contributors as it provided another quarter of outsized gains after reporting strong booking trends and long-term deleveraging visibility.

Investing Environment

Credit markets continued to grind higher throughout Q2, in stark contrast to Q1's risk-off price action. Fading near-term economic concerns led to collapsing volatility that provided a stable backdrop in Q2 for credit valuations and the reemergence of investor support, most noticeably among lower rated and cyclical credit risk. High yield bonds (as measured by the ICE BofA US High Yield Index) clocked in strong relative gains of 1.6% in Q2, for a first-half return of 5.6%.

Across the capital structure, leveraged loans (as measured by the Credit Suisse Leveraged Loan Index) returned 2.2% in Q2 for YTD gains of 6.3%. Loans were the strongest performing US fixed income sector, besting both investment grade and high yield for the quarter and YTD. Gains were primarily due to higher carry, limited new supply and hawkish Fed rhetoric that repriced front-end interest rates materially higher. During the quarter, Fed members reiterated their commitment to higher interest rates, warning a near-term policy pivot is unlikely. Short-term rates reacted by moving to their highest levels since March, reflecting a higher-for-longer policy environment.

The risk-on tone pulled credit spreads toward the bottom of their YTD range. At 425bps, spreads are just 15bps from January lows, implying little risk of an imminent downturn. Underneath the surface, spread tightening was most pronounced among lower rated and more cyclical credit risk. In particular, CCCs rallied 175bps to finish under 1,000bps for the first time since March's regional bank fallout. As a result, CCC-rated bonds continued to lead the market higher, with gains of 5.7%. Among the laggards were more rate-sensitive BBs (1.7%), which noticeably underperformed due to the step move higher in interest rates.

Primary market activity showed signs of normalizing throughout the quarter with borrowers taking advantage of strong risk appetites. While still historically light, new issuance activity in Q2 nearly doubled year-over-year to $53 billion. Issuance breadth improved across credit qualities and sectors, with investors showing a willingness to support more difficult transactions. Deal flow has been disproportionately focused on secured issuance, which has been used for bond-for-loan refinancings. Borrowers that have participated in refinancing transactions have also been among the strongest relative performers YTD—a function of improved sentiment at a time of constrained capital availability.

While volumes remain below long-term averages, default activity increased in Q2, with the high yield bond default rate edging higher to 2.4%—a two-year high from 2021's record lows. Defaults have increased the most YTD in loan-heavy or loan-only capital structures, given their sensitivity to higher funding costs. But in a sign of improving market health, the level of distressed situations came off its recent highs, falling to $230 billion—roughly half the levels seen during COVID-19 peaks. Despite broader economic concerns, high yield balance sheets remain in a good spot to weather any headwinds—leverage is at a more than decade low and interest coverage only slightly below an all-time high. Pockets of earnings weakness are evident, but most of the year's default volumes have been credit-specific, driven by higher input costs and unsustainable capital structures. Overall, we expect defaults to trend higher throughout the year, but peak defaults are likely only to approach long-term averages of 3%–4%.

Portfolio Positioning

Changes to the portfolio positioning were minimal during the quarter. Much of the portfolio's repositioning occurred throughout 2022 as we focused on trimming our floating rate exposure amid relative strength in favor of uniquely discounted and dislocated high yield opportunities. This repositioning caused our performance to lag in the latter half of last year as investors moved up in quality due to slowing growth fears. However, it has contributed to much of this year's outperformance as near-term default risks fade and as investors seek out total return opportunities among more dislocated capital structures.

The portfolio's mix between bonds (78%) and loans (15%) remains largely unchanged. Our bond allocation continues to be concentrated in low-dollar structures that can help cushion against market deterioration while providing greater total return potential through a combination of price appreciation and yield. Likewise, our loan allocation offers a material yield advantage and can act as ballast during periods of elevated volatility. Across sectors, we continue to favor market segments characterized by predictable free cash flow that have a unique ability to weather future volatility. As such, we ended the quarter with 35% of the portfolio concentrated in insurance, media and telecom. These sectors tend to be characterized by strong business quality, higher quality capital structures and more defensive business models.

Among return drivers for the quarter was the portfolio's long-held cruise line exposure. Our exposure is primarily focused on the big three—Carnival, Royal Caribbean and Norwegian Cruise Lines. In aggregate, they have generated YTD returns of over 20% and have contributed more than a quarter of the portfolio's YTD gains. As background, we initiated our investment in these names during the depths of the COVID-19 pandemic after providing rescue financing to Carnival Corp in April 2020. Our original investment thesis hinged on cruise operators' sprawling portfolio of high-quality assets that would limit impairment risk until sailings resumed. Our thesis has played out over the last three years as cruise line operators have leaned on capital market raises—both equity and debt—to bridge a prolonged shutdown. Supportive equity and high yield markets provided the industry plenty of options in addressing its cash burn while operations stood at a standstill. Now, with fleets fully deployed, demand is at pre-pandemic levels while volumes and pricing are in line or better than 2019 levels. Operating fundamentals have improved significantly from pandemic lows, with fleet optimization a key catalyst in improving pricing power and removing lower margin capacity. Operators have been proactive in divesting high-cost, less-efficient ships in their fleet in favor of higher yielding ones with more opportunities for onboard spending. Operators are now expected to be cash flow positive by late 2023 and will begin deleveraging as cash flows get diverted toward balance sheet repair. Over the intermediate term, we believe the industry will eventually return to investment grade status, resulting in continued spread tightening and strong total return potential.

Changes to the portfolio's largest 10 issuers included the entrance of retailer Nordstrom and food and commissary provider TKC, which replaced cable provider Altice USA and private jet operator VistaJet. Just under a third of the portfolio remains concentrated in our 10 largest issuers—consistent with our high-conviction approach.

We added to our exposure in the senior unsecured bonds of upscale retailer Nordstrom. Relative to other retailers, Nordstrom's post-pandemic recovery has taken longer than expected, but profitability has returned. A handful of headwinds, including supply chain challenges, inventory surplus, private label misses and weaker consumer spending, have combined to keep free cash flow generation below pre-COVID levels. In particular, the company's off-price channel Nordstrom Rack—which accounts for about a third of revenues—has struggled to drive growth amid merchandising and management changes. Nonetheless, recent efforts to refocus inventory offerings and the expected Rack turnaround should better position the company for margin growth and cash flow generation. Importantly, from a credit standpoint, management has prioritized regaining its investment grade rating, which should defer equity-friendly moves like dividend raises and stock buybacks. We express our views on Nordstrom across the maturity spectrum, all of which provide attractive convexity and total return potential at current valuations.

Our long-held exposure in TKC Holdings also reentered the portfolio's top 10 due to price appreciation with the quarter's subsiding inflation print. The company is a market-leading provider of food and commissary services to correctional, education and hotel end markets. Over the last decade, TKC has experienced relatively uninterrupted organic growth, helped by increased state and local government outsourcing. Although revenues hit a record level in 2021, TKC's operating performance has since slipped due to persistent cost inflation. The contracted nature of food service means TKC has struggled to pass through price increases quickly enough to offset building cost pressures. As a result, declining profitability and higher working capital needs have eroded TKC's liquidity situation. Despite headwinds, we believe the company is well-positioned for a turnaround. The company is supported by multiyear contracts that lead to greater than 90% renewal rates and predictable revenue streams that limit cyclicality and provide strong revenue visibility. Additionally, a new management team was introduced in 2022 to focus on procurement savings and greater financial flexibility in order to improve margins and reduce cost pressures. In particular, the company has successfully renegotiated several existing contracts in a move that will be immediately accretive to margins. At current valuations, we believe our secured and unsecured exposure provides substantial yield and total return potential with normalizing operations.

Our exposure in the bonds of cable provider Altice USA fell out of the top 10 due to weakness. The company posted another quarter of slowing broadband subscriber adds and weaker cash flow due to higher capital expenditure spending related to its significant fiber expansion. The company's turnaround continues to take longer than expected, but we remain constructive on the entire complex. We expect the significant capital investments will ultimately deliver subscriber gains that will lead to profit growth and deleveraging. For VistaJet, weaker utilization numbers caused by fleet growth led to mark-to-market weakness, which pulled the name out of the portfolio's top issuers. We used weakness to add to the name, based on attractive relative value and an expectation the company will continue to execute its plans to improve utilization.

Perspective

As we assess the initial half of the year, a prominent pattern emerges—both the surge and absence of volatility have left their mark. From banking sector stress and tightening in credit conditions to better-than-expected macroeconomic data that has sent mixed messages on the economy's direction, the highs and lows of changing sentiment have been prevalent throughout the year. But credit markets have shown resilience throughout, rallying on the back of strong fundamentals and lack of new supply. Despite material tightening over the last few months, dispersion underneath the surface remains. Against a backdrop of still below-potential growth and normalizing default rates, we continue to think elevated single-security dispersion creates a unique environment to generate alpha through credit selection—particularly down the quality spectrum and in out-of-favor segments of the market.

As we look ahead, the most notable issue facing leveraged finance markets is the access to capital and the ability to withstand higher borrowing costs. Lending standards are the most restrictive since COVID, and current levels have historically coincided with an uptick in spread volatility. As bouts of volatility increase, we will use growing dispersion as an opportunity to strategically invest in credits with attractive risk-reward profiles. We believe these periods play into the strength of our high-conviction approach, which allows us to lean into periods when dislocation and liquidity are most severe.

For more information: Visit www.artisanpartners.com | Call 800.344.1770

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 30 Jun 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 30 Jun 2023: Carnival Corp 4.2%; Royal Caribbean 1.4%; NCL Corp Ltd 3.4%; Nordstrom Inc 2.1%; TKC Holdings 2.1%, VistaJet Ltd 2.0%; Altice USA Inc 1.9%. 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.

Source ICE Data Indices, LLC is used with permission. ICE® is a registered trademark of ICE Data Indices, LLC or its affiliates and BofA® is a registered trademark of Bank of America Corporation licensed by Bank of America Corporation and its affiliates ("BofA"), and may not be used without BofA's prior written approval. The index data referenced herein is the property of ICE Data Indices, LLC, its affiliates ("ICE Data") and/or its third party suppliers and, along with the ICE BofA trademarks, has been licensed for use by Artisan Partners Limited Partnership. ICE Data and its Third Party Suppliers accept no liability in connection with the use of such index data or marks. See www.artisanpartners.com/ice-data.html for a full copy of the Disclaimer.

Attribution is used to evaluate the investment management decisions which affected the portfolio's performance when compared to a benchmark index. Contribution to return is calculated by Bloomberg by multiplying a security's daily total return multiplied by the daily weight compounded over the referenced timeframe and does not take into account expenses of the portfolio. Attribution is not exact, but should be considered an approximation of the relative contribution of each of the factors considered.

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.

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. **Carry** represents the return for holding an asset and generally refers to the interest income obtained from fixed income securities. **Free Cash Flow** is a measure of financial performance calculated as operating cash flow minus capital expenditures.

Artisan Partners Funds offered through Artisan Partners Distributors LLC (APDLLC), member FINRA. APDLLC is a wholly owned broker/dealer subsidiary of Artisan Partners Holdings LP. Artisan Partners Limited Partnership, an investment advisory firm and adviser to Artisan Partners Funds, is wholly owned by Artisan Partners Holdings LP.

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